Manitoba

REPORT OF THE PROVINCIAL AUDITOR

to the Legislative Assembly

for the fiscal year ended

March 31, 1990

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INTRODUCTORY COMMENTS

Introductory Comments

The Provincial Auditor, by his Act, is required to report annually to the Legislative Assembly on the work of his Office and whether he received all the information and explanations he required. In reporting to the Assembly, the Act also requires that he report anything he considers significant and of a nature that should be brought to the Assembly's attention.

This report has been prepared to meet these requirements. The report completes the accountability cycle for the resources provided for the work of the Office. It provides information to the Members of the Legislative Assembly and the public on the results of our work. We outline the approach we take in carrying out our work in the section titled Organization and Activities of the Office and in Exhibit 2, Scope of Audit and Reporting Procedures. Exhibit 2 provides general information on our role and mission and mandate. The section titled Organization and Activities of the Office focuses on the activities of the Office for the year just completed.

In this report, we include matters that we consider warrant the attention of the Members of the Legislative Assembly. We report these matters in the sections titled Government's Central Management System, Agencies and Departments and Public Accounts. These sections include new matters and the status of matters previously reported to the Assembly.

We provide comments on the Government's financial affairs in the section titled Public Accounts. This section includes comments on the Government's Consolidated Fund financial statements. We also provide in this report, as exhibits, the Consolidated Fund financial statements and our attest audit opinion on the statements.

We summarize what we consider to be the more significant concerns and recommendations in the section titled Summary of Concerns and Recommendations. In this section, we also acknowledge the matters previously reported which have been resolved or significantly improved. It is important to note that most of the audit work completed during the year did not identify matters requiring reporting to the Legislative Assembly.

In addition to our regular ongoing attest, compliance and broader scope work, we selected operations to audit that we determined warranted reviewing and reporting to the Assembly. In selecting these matters, we considered matters that could be of concern to Members of the Legislative Assembly and the public. We report those situations where operations were satisfactory as well as situations that require improvement.

We are pleased to report that we received all the information and explanations we required in the course of our work.

We wish to express our appreciation to ministers, chairpersons, officials and staff of departments, public bodies and grantees for the cooperation and assistance they provided during the course of our audits.

INTRODUCTORY COMMENTS

We would like to thank the Members of the Legislative Assembly, the media and the public for their assistance, understanding and support.

I also wish to express my appreciation to my staff for the thorough and professional way they carried out their audit work, and for the manner in which they served the Legislative Assembly and the public during the past year.

SUMMARY OF CONCERNS AND RECOMMENDATIONS

Summary of Concerns and Recommendations

The matters included in this section are those that we consider to be the more significant. These matters are crossed referenced to the pages in this report that provide further comment:

Government's Central Management System

Review of the Legislative Assembly Offices (page 9)

Our review of the operations of the Offices of the Legislative Assembly identified opportunities to improve the support provided to the Members of the Legislative Assembly and to otherwise improve the efficiency and effectiveness of the operations of the Offices.

We recommend that the Legislative Assembly Management Commission review the matters raised in our report and take action considered warranted.

Fiscal Stabilization Fund - Reservation in our Attest Audit Opinion (page 12)

The Government obtained shares when it disposed of its interest in Manfor Ltd. The shares were deposited to the Fiscal Stabilization Fund. We reported that the shares valued at $77,638,700 are not an asset of the kind that can be used for the purposes of the Fund at this time to stabilize the fiscal position of the Government. We noted that there is some confusion on the part of the readers of the Fund's financial statements as to the amount of assets available for use for the purpose of the Fund.

We recommend that further consideration be given to working towards greater clarification of the availability of funds in the Fiscal Stabilization Fund.

Untendered Contracts (page 13)

Section 44(1) of The Financial Administration Act sets out the requirements for reporting untendered contracts. We identified that the legislation needs to be clarified as to what is intended by the term "public tender", which agencies are subject to this legislation and what is intended by the terms "making information available to the public". Further, we identified that policies and processes for gathering and reporting information on untendered contracts should be documented in the Financial Administration Manual and the General Manual of Administration. We also recommend that the Department of Finance Coordinator follow up on missing reports.

We recommend that these matters be given appropriate consideration.

Overtime (page 17)

Our review of overtime in nine Government departments identified that three departments are each investigating the feasibility of purchasing computer systems to record personnel information, including overtime. These systems could be a duplication of the central

Manitoba Employees Information System (M.E.I.S.). We also observed that most departments do not prepare departmental reports on overtime to enable senior management to monitor and evaluate total overtime worked.

We recommend that the Civil Service Commission incorporate the capturing of overtime information in their intended enhancement of the central M.E.I.S. We recommend that Treasury Board review the practice of several individual departments each investigating the feasibility of developing systems independent of the central system. We also recommend that departments prepare appropriate reports on overtime in order for senior management to properly control and evaluate overtime worked.

Estimates (page 23)

We previously identified opportunities that should be considered to improve the information provided to Legislators, the Estimates, the Estimates development process and the Legislative review process.

We recommend that the Legislative Assembly and the Government consider alternatives that could improve the information provided to Members of the Legislative Assembly, the Estimates and the Estimates development process and the Legislative review process.

Planning (page 25)

Our audits previously identified that departments are having difficulties implementing appropriate planning practices. The Government, through its Management Practices Guide, stressed the importance of planning on a government-wide basis.

We recommend that the Government continue to act on its commitment to improve planning and take the necessary steps to bring about effective planning for the government as a whole.

Accountability for Government Policy Implementation (page 27)

We previously reported that there is a need to strengthen the accountability process to assure Government that its policies are implemented and carried out.

We recommend that the Government consider establishing an accountability process with appropriate reporting and monitoring to ensure significant Government policy decisions and initiatives are appropriately implemented and carried out.

Financial and Management Information Systems (page 29)

We continue to report the importance of having effective and efficient systems that will provide timely information necessary for financial and management information purposes.

The Department of Finance has recognized the need to and the benefits from improving the central financial and management information systems. Department of Finance officials are in the process of reviewing how the central systems can best be improved. In addition, officials of other departments and agencies are working to improve their financial and management information systems.

We recommend that officials continue to work to improve their systems.

Internal Audit (page 30)

We previously determined that certain departments still need to obtain internal audit services to comply with the Government policy directive. Also, certain internal audit functions would benefit from strengthening their management and audit practices. The Government is in the process of evaluating its internal audit functions.

We recommend that departments obtain internal audit services. We also recommend that action be continued to improve the management and audit practices of the internal audit functions in Government.

Public Accounts Committee (page 34)

We previously made recommendations which we believe would increase the effectiveness of the operations of the Committee. These recommendations include: meeting on a more timely basis; requesting officials from Government departments and Crown agencies to appear before the Committee to answer questions put by Committee members; developing a working agenda; and providing questions to be raised at Committee to respondents in advance of the Committee meetings.

We recommend that these suggestions be considered by the Committee. We also recommend that the current Committee Chairperson continue the work of the former chairperson and meet with the Minister of Finance to explore ways to increase the Committee's effectiveness.

Crown Agency Accountability to the Legislature (page 35)

We previously recommended that the Government strengthen Crown agency accountability to the Legislature. The Government has taken action to improve accountability for a number of Crown agencies. However, responsibility for monitoring and evaluating the other Crown agencies, including those in which the Government has only a partial interest, needs to be clarified.

We recommend that the Government give further consideration to strengthening Crown agency accountability to the Legislature for all Crown agencies.

Agencies and Departments

Public Trustee's Office (page 57)

We previously reported that the Public Trustee's Office needed to strengthen its comptrollership function. This is of continuing importance given the Office's sensitive position of public trust and the increasing estates and trusts under administration.

We recommend that urgent attention be given to this matter. We recommend that the

Public Trustee, in conjunction with the Department of Justice, undertake a thorough review of the Office's operations and develop an action plan to strengthen its practices and controls.

Workers Compensation Board (page 58)

The Board has taken a number of significant positive steps to address the issue of compliance with legislation and to develop a sound fiscal policy for funding its operations. Further, the Board developed a comprehensive plan, for discussion with Government, which was designed to provide the basis to formulate a strategy to address the issue of the Board's unfunded liabilities.

We recommend the Board continue its efforts and that the Government take action to enable the Board to effectively address its unfunded liabilities.

Public Accounts

Consolidated Fund Financial Statements - Reservations In Our Attest Audit Opinion (page 73)

We have reported 3 reservations in our attest audit opinion on the Government's Consolidated Fund financial statements. Reservation 1 concerns the recording of an emergency disaster amount receivable from the Government of Canada which is not supported by an agreement as at March 31, 1990. In our view, the recording of this amount receivable is not in accordance with the Government's accounting policies because the Department of Finance generally does not record amounts receivable from the Government of Canada until a covering agreement is in place. Reservation 2 concerns the Government's failure to record its pension liabilities and the costs associated with the annual increase in the pension liabilities for entitlements earned by its employees, teachers and Members of the Legislative Assembly. Reservation 3 concerns the Government not combining the Fiscal Stabilization Fund with the Operating Fund of the Consolidated Fund for reporting purposes.

We recommend that the Government finalize arrangements with the Government of Canada on cost sharing of its emergency disaster costs. We recommend that the Government record its pension liabilities and the costs associated with the annual increase in the pension liabilities. We recommend that the Fiscal Stabilization Fund be combined with the Operating Fund of the Consolidated Fund for financial reporting purposes.

We also recommend that the Government work towards recording its fixed assets and other liabilities such as severance pay, sick leave, vacation pay, long tern disability benefits earned and its portion of the Workers Compensation Board's unfunded liabilities.

Classification of Trust Funds (page 81)

The Government classifies certain operating type funds as trust funds. This is being done in accordance with legislation establishing these funds or for banking and investment purposes. However, certain of these funds do not meet the criteria of a trust fund because a fiduciary trust relationship does not exist. We previously reported that the more significant of these funds were the lottery trust funds, the Mining Community Reserve Fund, the Fires Prevention Fund and the Victims Assistance Fund.

The Government has taken significant positive steps regarding the lottery trust funds. Lottery funded programs are now included in the Operating Fund and reported in departmental Estimates. The only concern remaining is that the balances remaining in the trust fund are not combined with the Operating Fund for reporting purposes.

We recommend that the Government review the funds in the Trust Section of the Consolidated Fund. We recommend that those funds that do not meet the criteria of a trust fund be combined with the Operating Fund for reporting purposes. To assist with this process, we recommend that the Government consider amending legislation that establishes these funds as trust funds.

Matters Considered Resolved or Significantly Improved

The following are concerns and recommendations that we previously identified as being more significant that are considered resolved or significantly improved:

Budgeting (page 26)

The Government has taken action to develop and report multi-year budgets. The actions by the Government resolve our previously reported concerns.

Management Practices (page 28)

The Government has taken significant steps to improve management practices through the Management and Reform Committee of Cabinet.

In other areas of our report we identify other matters which have been resolved or significantly improved. These include:

Matters Resolved:

- Job Evaluation (page 39)
- Ministerial Expense Accounts (page 40)
- Manitoba Intercultural Council - Management Practices (page 56)
- Department of Agriculture and Manitoba Agricultural Credit Corporation - Outstanding Accounts Receivable (page 59)
- Department of Cooperative, Consumer & Corporate Affairs - Regulatory Function for Credit Unions and Caisses Populaires (page 60)
- Department of Finance - Self-supporting Debt (page 68)
- Department of Justice - Suitor's Trust (page 69)
- Department of Northern Affairs - Planning and Reporting (page 70)

- Northern Affairs Fund - Collection Procedures for Tax Arrears, Internal Control over the Tax Roll and Monitoring of Changes in Ownership of Property (page 70
- Department of Rural Development - Assessments (page 71)

Matters Significantly Improved:

- Administrative Practices for Crown Agencies (page 36)
- Departmental Annual Reports (page 37)
- Government Reporting Entity (page 80)
- Lottery Trust Funds (page 82)

While a number of the other matters have been resolved or significantly improved, the Government has not had been able to act on many of our more significant concerns and recommendations. We realize that several of these matters are difficult to deal with and may take considerable time to resolve.

We recommend that the Government develop an action plan to deal with the matters reported. The action plan should priorize the concerns and recommendations and identify individuals responsible for ensuring appropriate action is taken. Target dates for resolution of the concerns should be established. An appropriate reporting process should be put in place so the Government can monitor the progress being made to resolve these matters.

GOVERNMENT'S CENTRAL MANAGEMENT SYSTEM

NEW MATTERS

General Comments

The size and complexity of Government is such that a formal management system is required to use resources effectively. Responsibility for the Government's Central Management System is vested in Treasury Board with staff assistance from the Department of Finance, (Treasury Board Secretariat and the Comptroller's Division) and the Civil Service Commission.

Last year the matter most commented upon in our report was accountability. Our report provided many recommendations for improving accountability. Accountability continues to be of key importance to Government operations. The Government's Central Management System is critical to establishing accountability within government. The Government has taken positive steps to improving its accountability practices and processes. It has established a multi-year budgeting process and has made and is in the process of making improvements to its management practices, its financial and management information systems, the recording of lottery funds, its Summary financial statements and its departmental annual reporting guidelines. However, further efforts are required to bring about an appropriate level of accountability. Our comments in this section of our report, both under new matters and the status of matters previously reported, provide information on accountability matters, including progress made and recommendations for further improvement.

Review of the Legislative Assembly Offices

Introduction

The Speaker, with the concurrence of the Legislative Assembly Management Commission (LAMC), requested that the Provincial Auditor's Office review the operations of the Offices of the Legislative Assembly.

Objectives and Scope of Audit

The objective of the review was to determine whether there were opportunities to enhance support provided to the Members of the Legislative Assembly and to otherwise improve the efficiency and effectiveness of the operations of the Offices.

Our examination was carried out in accordance with public sector auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances.

Our review included examining pertinent legislation and documentation, polling the 57 Members of the Legislative Assembly on issues pertinent to the review and interviewing staff and former staff of the Legislative Assembly Offices. We visited the Legislative Assembly Offices in Alberta, Saskatchewan and Ontario and briefly reviewed their operations. We also reviewed documentation on the operations of the Legislative Assembly Offices in Quebec and the Offices supporting the House of Commons.

Observations and Conclusions

We identified opportunities to improve the support provided to the Members and to otherwise improve the efficiency and effectiveness of the operations of the Legislative Assembly Offices. The more significant recommendations were that consideration be given to:

- A reorganization of the administration functions within the Offices of the Legislative Assembly.
- The hiring of a separate Law Officer reporting to the Speaker. The position should be transferred from the Department of Attorney-General - Legislative Counsel.
- Improvements to the standing committee system.
- Improvements to the information support systems.
- Improvements to security within the Legislative Building along the lines suggested by the Department of Government Services.
- Strengthening management practices within the Offices.
- The need for a review and improved documentation of the guidelines for Legislative Assembly expenditures. The guidelines need to adhere to the intent of legislation and need to be effectively communicated to MLAs. The rationale for MLA's retaining fixed assets purchased from constituency allowances was not clear. We suggested that consideration be given to the Legislative Assembly paying for constituency office expenses and maintaining ownership of all fixed assets.

We provided the Speaker with a detailed report of our review in May 1990.

We recommended that the Legislative Assembly Management Commission review the matters raised in the report and take action considered warranted.

Comments of Officials

Officials stated that the report would be provided to the Commission for review.

Divestiture of Crown Entities

Introduction

In our report last year, we indicated that we had arranged to review the Government's processes and procedures regarding its divestiture of Crown entities.

Objectives and Scope of Audit

Specifically, we reviewed the sale of both Manitoba Oil and Gas Corporation and Manfor Ltd. We concerned ourselves with whether the practices followed enabled interested parties to be aware of the intended privatization and whether the practice gave these parties the opportunity to bid on the assets being privatized. We also assessed whether an adequate analysis was carried out and communicated to the decision makers to provide them with sufficient information to carry out the divestitures. We did not concern ourselves with the merit of the decision to privatize these entities.

Observations and Conclusions

In both instances, we concluded that the divestiture procedures did enable interested parties to be aware of the intended privatization, did provide interested parties with the opportunity to bid on the assets being sold and did provide the Government with an appropriate analysis to make an informed decision on the sale of the entities.

In the case of Manitoba Oil and Gas Corporation, the Corporation's Board of Directors and management, together with consultants for accounting, legal and engineering services formed a management group which handled the divestiture. Our review disclosed that the sale of the Corporation had been advertised and informational packages were provided to prospective purchasers. The management group reviewed the bids received and compared them to a valuation established by independent engineering consultants. The management group prepared a submission to Cabinet outlining their work and recommendations. In our opinion, this process provided Cabinet with an appropriate analysis to make an informed decision.

In the case of Manfor Ltd., our review determined that the Public Investment Corporation of Manitoba (PICM) began the divestiture process in early 1987. Independent economic valuations of the Manfor assets and forecasts of future cash requirements were obtained. Other information, such as the financial statements of Manfor Ltd. and the history of the Provincial funding required to support operations, were also available to establish the value of the Corporation. PICM retained a management consulting firm to assist in the divestiture process. The consulting firm surveyed both Canadian and foreign businesses to identify companies which might be interested in purchasing Manfor Ltd. PICM contacted the interested companies and requested proposals. PICM also led the initial divestiture negotiations with interested companies. PICM was assisted by Manfor staff, in addition to the consulting firm, accountants and lawyers hired for this purpose. After the 1988 election, the Government transferred responsibility for the Manfor divestiture to the Secretary, Policy Secretariat. He directed the negotiations with assistance from the consulting firm and others, including the Minister of Finance and a consulting firm with experience in the forestry industry. Five divestiture objectives were established. The negotiating group compared the proposals received against these objectives. Cabinet, through the Minister of Finance, was advised of the status of divestiture proceedings, together with recommendations of the negotiating group. In our opinion, these procedures enabled Cabinet to make an informed decision.

Fiscal Stabilization Fund - Reservation In Our Attest Audit Opinion

During the 1990 fiscal year, the Government disposed of its interest in Manfor Ltd., the pulp, paper and lumber mill operations in The Pas, to Repap Pulp and Paper Inc. As disclosed in note 3 to the Fiscal Stabilization Fund financial statements, the Government entered into a share purchase agreement with Repap Pulp and Paper Inc. Under the terms of the agreement, the Government acquired preferred shares of Repap Enterprises Inc., a subsidiary of Repap Pulp and Paper Inc. These shares were transferred to and recorded as an asset in the Fiscal Stabilization Fund in the amount of $77,638,700. The shares were recorded at the future potential redemption value, being $100 for each of the 316,397 Series D shares, $100 for each of the 450,000 Series E shares and $2.22 for each of the remaining 450,000 Series E shares. The realization of the redemption of the shares is affected by future earnings of the operations at The Pas and the occurrence of other future events as disclosed in note 4 to the Fiscal Stabilization Fund financial statements.

Because the realization of these shares is dependent on the future profitability of the operations at The Pas and other future events, the current worth of the shares is not presently determinable. Accordingly, an equal and offsetting account in the amount of $77,638,700 has been recorded as an unrealized recovery from future redemption of preferred shares of Repap Enterprises Inc.

The transfer of these shares to the Fiscal Stabilization Fund is in accordance with The Fiscal Stabilization Fund Act. However, the purpose of the Fiscal Stabilization Fund is to stabilize the financial position of the Government. As at March 31, 1990, the shares of $77,638,700 are not an asset of the kind that can be used to fund program expenditures to assist in stabilizing the financial position of the Government. As a result, we have reported a reservation in our attest audit opinion on the Fiscal Stabilization Fund financial statements.

We appreciate that significant efforts were made in the notes to the financial statements to explain the situation regarding the preferred shares and that funds will not be available for use until the shares are redeemed. However, there still seems to be some confusion on the part of readers of the financial statements as to the amount of assets available for use for the purpose of the Fund.

We recommend further consideration be given to working towards greater clarification of the availability of funds in the Fiscal Stabilization Fund.

Comments of Officials

Officials advised that the accounting approach used to record the value of the Repap Enterprises Inc. shares that were transferred to the Fiscal Stabilization Fund is carefully and clearly described in the financial statements of the Fund. However, further consideration will be given to clarifying, for the readers' understanding, the Fund balance that is available for the purpose of the Fund at the statement date.

Untendered Contracts

Introduction

Legislation was recently enacted to provide information to the public on untendered contracts entered into by the Government. The legislation requires every Minister to provide the Minister of Finance with details of contracts in excess of $1,000 awarded other than by public tender by any department or agency for which he or she is responsible.

Initially, the legislative requirement was included in The Legislative Assembly and Executive Council Conflict of Interest Act. During 1989-90, the requirement was repealed in The Legislative Assembly and Executive Council Conflict of Interest Act and enacted as (S.M.1989-90,c.90,s.18) section 44.1 of The Financial Administration Act (FAA). We have been advised that this legislation had to be quickly developed due to restrictive timeframes.

On January 16, 1989, the Minister of Finance issued a directive to all Ministers, Deputy Ministers, Heads of Agencies and Directors of Administration outlining the legislative requirement for the Government to make information available to the public on all untendered contracts over $1,000 in value. Specifically, each Minister is required to provide information on such contracts to the Minister of Finance within one month of awarding the contract. In order to fulfill the requirements of the legislation, the directive requires each Minister, under his/her signature, to submit a bi-weekly report to the designated Coordinator, no later than two weeks following the period being reported on. A standard form was provided for the report.

The Minister of Finance designated the Director of Administration of the Department of Finance as responsible for the coordination and compilation of the reports. The Minister of Finance shall, upon receipt of this information, make that information available to the public.

Objectives and Scope of Audit

The objectives of our audit were:

- to determine whether there has been compliance with the legislative requirement for reporting untendered contracts and
- to determine whether appropriate management practices were established to ensure the effective implementation of the legislation.

The review was carried out during the month of September 1990. Our examination was carried out in accordance with public sector auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances. This involved reviewing the legislation, the Minister of Finance's memorandum of direction and the central policy and procedure manuals intended to provide direction and guidance to departments and agencies. Discussions were held with the Department of Finance designated Coordinator and with officials in three departments to gain an understanding of the reporting process. We reviewed the designated Coordinator's central control list of the reports received and reviewed the timeliness of reporting by departments and agencies.

Observations and Conclusions

Section 44.1 of The Financial Administration Act (F.A.A.) would benefit from clarification. We had difficulty assessing compliance with the legislation because the intention of the terms "public tender", "agency" and "make information available to the public" were not clear and require interpretation of intent. The following three sections deal with the need to amend the legislation to clarify its intent.

Public Tender

The term "public tender" normally means a formal process involving advertising to obtain bids and proposals. In The Government Purchases Act section 7 this is recognized by the phrase "competitive offers shall be obtained by public tender or otherwise". Many contracts and commitments result from a much less formal process, involving verbal and written quotes from more than one supplier. These would require reporting as untendered contracts if a strict interpretation of the term "public tender" was applied. According to Legislative Counsel, it would be difficult to read "public tender" as used in section 44.1 of the F.A.A. as being restricted to the formal process.

As previously mentioned the Minister of Finance has requested departments to report on all "untendered" contracts in excess of $1,000.

However, it is not clear as to what constitutes an untendered contract to be reported under the provisions of the legislation. We are unable to assess whether the reports being submitted include all of the contracts awarded by other than "public tender" as intended.

We recommend that the term "public tender" in the legislation be clarified to clearly identify the type of contract arrangements expected to be reported to the Minister of Finance for public information.

Applicability to Departments/Agencies

The intended applicability of the legislative phrase "to any department or agency for which a Minister is responsible" requires clarification. The Minister of Finance's memorandum was sent to Heads of Agencies.

The Financial Administration Act defines a government agency as:

> "any board, commission, association, agency, or similar body, whether incorporated or unincorporated, all the members of which, or all the members of the board of management, board of directors or other governing boards, of which are appointed by an Act of the Legislature or by the Lieutenant Governor in Council".

Following the definition in the Act, the following agencies would be expected to report on untendered contracts:

- Crown Corporations Council
- Leaf Rapids Town properties Ltd.
- Manitoba Advisory Council on the Status of Women
- Manitoba Arts Council
- Manitoba Hazardous Waste Management Corporation
- Manitoba Hydro
- Manitoba Intercultural Council
- Manitoba Lotteries Foundation
- Manitoba Public Insurance Corporation
- Manitoba Telephone System

However, we have been advised that the intent of the legislation was not to have all Crown agencies report on untendered contracts. The intent was that only those agencies that are closely associated with a government department would be expected to report. Therefore, the Department of Finance Coordinator is not monitoring the above listed agencies.

We recommend that the legislative reference "to any department or agency for which a Minister is responsible" be clarified, particularly with respect to the definition of agency as used in The Financial Administration Act. There should be no ambiguity or interpretation required as to which areas have to be reported upon by a Minister. We have been advised that this matter arises as a result of the legislation for untendered contracts being moved into The Financial Administration Act from another act.

Access to Information

Neither the legislation nor the Minister of Finance's directive indicated the method by which information on untendered contracts would be made available to the public. Consequently, it is not clear how the public is to become aware of the information's existence or the method of access. At present, a copy of each report signed by a Minister, which lists untendered contract information, is on file in the Minister of Finance's office. We were advised that the method chosen to make information available was based on a least cost alternative. The method is the same method used for orders-in-council. Officials advised that both the press and opposition members are aware that copies of the reports are available in the Minister of Finance's office and do make reference to them periodically.

We recommend that the legislation stipulate how the Minister of Finance is to make the untendered contract information available to the public.

Organization

The provision for untendered contract reporting is included in the F.A.A. As a result, we consider the Department of Finance to have the responsibility to ensure that appropriate systems are in place. The departmental and agency administrative systems established to meet the legislative requirements need to be standardized and documented in the various government manuals and guidelines. The responsibilities for administering the systems as well as preparing and submitting the required reports need to be clearly delegated.

The Financial Administration Manual (FAM) has not been updated to outline the procedures expected to be in place in a Department to facilitate the preparation and submission of the required report by the Minister every two weeks.

The General Manual of Administration (GMA) section PA-11-03 provides direction on the requirements for obtaining bids on contracts and commitments by the Government of Manitoba. It sets out the guidelines under which bidding requirements may be waived. However, there has been no amendment to incorporate reporting requirements for untendered contracts into the GMA and FAM.

We recommend that procedural guidelines be documented in the existing FAM and GMA manuals. Consideration also might be given to standardizing the departmental administrative processes for the preparation of the untendered contract reports for a Minister's signature and submission to the Department of Finance Coordinator. This may be another aspect to be considered for inclusion in an Integrated Financial and Management Information System project.

Coordinator Monitoring

Our review of the Department of Finance Coordinator's control list, which is used to monitor receipt of reports from department and agencies, determined:

- The Department of Finance Coordinator does not have a system in place to evaluate the timeliness of reporting. The control record provides only an open item list of those departments and agencies, which have not reported for a specific period, at a point in time. Actual reports on file did not bear evidence of the date of receipt. During discussion, the Coordinator agreed to date the receipt of all forms, in the future.

- All signed reports on file with the Coordinator did not indicate the date signed by the Minister. This, combined with the failure to date reports upon receipt, made it impossible to conclude whether the reporting expectation, of one month after awarding of a contract, was being achieved.

- Reports for a number of departments/agencies had not been received by the Coordinator within one month following the bi-weekly reporting period. A review of the Coordinator's open item list revealed that some reports were over thirty days late in being submitted. There may be explanations for delays, however the expected reporting has not been achieved.

- A high percentage of the reports are nil reports. We believe the requirement for submission of a report, even if it is a nil report, is a control feature to ensure departments give continuing consideration to the legislation.

We recommend that the Department of Finance Coordinator or other delegated official follow up on missing reports and the reasons for late submission or subsequent amendments. It would appear that reporting of untendered contracts is not being given sufficient priority. Consideration might also be given to allowing ministers to delegate the signing of reports to other departmental officials.

Comments of Officials

Officials advised that clarification of the issues raised by the audit will require legislative amendments. The Government has endeavoured to satisfy the requirements imposed by this legislation given the very restrictive timeframes required by the legislation.

Procedures will be reviewed to ensure that the monitoring process is adequate and effective. Reporting requirements will be outlined in a Financial Administration Information Circular, and will be referenced in the next update of the General Manual of Administration. Also, delegation of signing authority will be reviewed.

Overtime

Introduction

One critical management goal is the achievement of desired results with the most efficient use of assigned limited resources. Human resources have been acknowledged as the Government's most important limited resource available to deliver the mandated program objectives.

Management has the responsibility of guiding staff members in a controlled, common direction. As The Management Practices Guide points out, "The ultimate purpose of control is to ensure the organization achieves its planned objectives on time and within budget." Effective reporting of key management information related to staffing will assist management in fulfilling their control responsibilities.

We believe that one essential component of management information related to staffing is information about the use of overtime. Limited overtime may be required to deliver departmental programs effectively. Excessive overtime, however, may result in the counter-productive use of staff resources. Instances of significant overtime should be rationalized to ensure that permanent staffing levels are appropriate.

Objectives and Scope of Audit

We undertook a review to determine whether the recording, monitoring and controlling practices for overtime were appropriate. We reviewed the practices within nine Government departments for the period April 1989 to September 30, 1990.

Our examination was carried out in accordance with public sector auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances.

Observations and Conclusions

Evidence demonstrated that appropriate approvals for reported overtime worked were being obtained. However, the results of our review also indicated that:

- duplicate systems are being considered for development in departments because the central information system is not providing departments with necessary information for effective decision-making and
- there is an absence of central reporting of overtime to senior management within departments to enable them to appropriately analyze and evaluate the use of limited staff resources in the performance of the department's programs.

We have included further comments on our findings as well as our recommendations to strengthen these areas in the following paragraphs.

Approvals for Reported Overtime Worked

Discussions with departmental personnel staff indicated they were knowledgeable of the content of the master agreement and the various sub-agreements to ensure the overtime terms are complied with when reviewing biweekly attendance reports. Evidence demonstrated that staff were aware that all overtime was to be authorized before it was actually worked, except in the case of predefined emergencies. Generally, any overtime worked and claimed prior to its approval is not accepted. Our review indicated that approvals were being requested and received appropriately.

Development of Duplicate Systems

Three departments were currently investigating the feasibility of developing or purchasing computer systems to record personnel information, including such information as overtime, sick leave and vacation entitlements. These departments are expending limited resources to arrive at their own individualized solution to a problem identified by most user departments.

The Civil Service Commission's mandate includes the provision of centralized human resource management services to all departments of government. In addressing this mandate, the Commission recently initiated a five year enhancement project of the current Manitoba Employee Information System (M.E.I.S.). However, we note that the enhancements currently envisioned do not include capturing overtime data from attendance reports.

Officials from two of the three departments investigating the feasibility of developing duplicate systems have indicated to us that the enhancement project with M.E.I.S. has not proceeded on a timely basis. These two departments expressed concern with the benefits which will be derived from the M.E.I.S. system for their departments. The third department has advised us that the proposed human resource management system for their department is on hold pending development of the central system.

We recommend that the Commission incorporate the capturing of overtime data from attendance reports and make further attempts to involve all user departments to ensure the establishment of government-wide standards in this area.

Comments of Officials

Civil Service Commission officials indicated to us that the Commission is currently redeveloping the M.E.I.S. over the next few years to provide all government departments with a comprehensive human resource management system. The Commission is prepared to review the feasibility of adding overtime to the scope of the project once they start work on the attendance module, which is currently scheduled for late 1992.

Officials also acknowledged that attendance reporting is a major task for departments, and as a result the development of an automated process is high on their priority list. The Commission recognizes this need and have suggested to departments that if they wish to undertake the purchase or development of an attendance system they should do so as part of the M.E.I.S. redevelopment project. The system could then be made available to all departments. The Commission indicated that at this time, no department has accepted this offer.

Further Audit Comment

We recommend that Treasury Board review this situation. We further recommend that the M.E.I.S. project be approached with an appropriate sense of urgency to avoid similar situations in the future where Departments feel compelled to implement their own systems.

Central Reporting of Overtime to Senior Management

The recording, controlling, and monitoring of individual overtime records generally takes place at the branch level of each department. We observed that only two departmental personnel areas maintain records of accumulated overtime and prepare a departmental report summarizing the total overtime claimed during the fiscal year.

Central reporting of overtime would ensure that the policy is being applied as intended. In addition, central reporting of overtime would enable senior management to analyze and evaluate the use of limited staff resources in the performance of the department's programs. Our review revealed certain areas within several departments work large amounts of overtime on an ongoing, consistent basis. This overtime results in the payout of salaries at one and one-half to two times the normal rate of pay. We believe that senior management should be in a position to rationalize this overtime.

We recommend that complete overtime records be maintained at each department's central personnel location permitting the production of periodic reports of total accumulated overtime and its disposition through payout and compensatory leave. We further recommend that a report of this nature should be forwarded to the department's Deputy Minister for review on a periodic basis. Such a reporting system could be integrated into the Government M.E.I.S. This departmental overtime information would then also be available to Treasury Board, enabling an overall evaluation of the overtime policy.

Comments of Officials

Officials stated that departments will be advised to ensure appropriate reporting and review of overtime is undertaken. Treasury Board has advised that it has not and will not approve system plans from departments requesting the development of duplicate systems.

Review of Specific Expenditures

Introduction

We reviewed the following types of expenditures:

- Senior Management Expense Claims
- Hospitality Expenses
- Out-of-Province Travel Expenses
- Relocation Expenses

We reviewed these expenditures because of their sensitive nature, while recognizing that they are individually of relatively low dollar value.

Objectives and Scope of Audit

The main objective of our review was to determine whether expenditures were in compliance with Government policy, as set out in the General Manual of Administration. A secondary objective was to determine whether the claims for reimbursement of expenses provided an appropriate level of accountability for the expenditure of public funds. A further objective for our review was to determine whether the expenditures were made for the purposes authorized.

For senior management expense claims, we reviewed expense claims of Deputy Ministers, Associate Deputy Ministers and Assistant Deputy Ministers for the fiscal year ended March 31, 1990. This included the review of 392 vouchers submitted by 65 senior managers totalling $187,443. Each voucher could involve one or more expense claims.

During the year ended March 31, 1990, 24 departments expended approximately $421,000 on hospitality related expenditures. Of the 24 departments:

- 13 expended less than $10,000 on hospitality expenditures;
- 10 expended between $10,000 and $50,000 and
- 1 expended over $120,000.

We concentrated our review on those departments that had expended the largest amounts of hospitality expenditures. We examined 141 vouchers and supporting documentation totalling $282,388, or approximately 67% of the total hospitality expenditures.

For out-of-province travel, we examined expense claims for two fiscal years. We reviewed 82 vouchers for 5 departments in the 1989 fiscal year and 69 vouchers for another 5 departments in the 1990 fiscal year. This represented $224,438 or approximately 5% of the out-of-province travel expenses for the two years.

Our review of relocation expenses also covered a two year period. For the 1989 fiscal year we reviewed 80 vouchers for relocation expenses in six departments. For the 1990 fiscal year we examined 21 relocation expense vouchers in two departments. This approximated $338,418 or 16% of the total expenses for the two years.

Observations and Conclusions

We found that, except for the following matters, expenditures generally were in compliance with Government policy, there generally was an appropriate level of accountability for the expenditure of public funds and expenditures were made for the purposes authorized.

Senior Management Expense Claims

Of the 392 vouchers examined, we observed instances where documentation to support the claim should be improved, and other instances where approved government rates were exceeded and where the immediate supervisor did not approve the expense claim.

Those expense claims where we noted concerns have been returned to department officials for corrective action and/or improved future practices.

In our opinion, certain departments need to improve their processing practices for senior management expense claims to ensure that claims are not processed unless they are adequately supported by documentation and adhere to Government policy.

We recommend that the Government provide direction to departments to ensure that expense claims and the documentation practices adhere to Government policy.

Hospitality Expenses

Of the 141 vouchers examined, we found 5 vouchers affecting 4 departments that did not adhere to the Government approval policy.

These vouchers have been returned to the departments to obtain the required approvals.

In our opinion, except for the instances noted, hospitality expenditures were processed in accordance with Government policy, were expended for the purposes authorized and there was an appropriate level of accountability.

Out-of-Province Travel

From our review, we concluded that claims for out-of-province travel were in accordance with Government policy, were expended for the purposes authorized and there was an appropriate level of accountability. Travel was pre-approved by the Minister responsible and, in our view, the expenses were reasonable for the localities.

Relocation Expenses

Of the 101 vouchers examined, we identified that three employees were overpaid and one employee was underpaid. We notified the departments responsible and departmental staff are taking action to rectify these matters. Our review also found instances where the documentation to support the expenditure, and the coding for taxable benefit purposes needed to be improved. The responsible departments have been notified and either have or are in the process of providing the documentation and are making the necessary adjustments to the coding.

The concerns we identified were mainly found in one department. We recommend that officials within the department take action to more closely monitor the processing of relocation expenses. We found that relocation expenses generally were in accordance with Government policy, were expended for the purposes authorized and there was an appropriate level of accountability.

Comments of Officials

Of the four areas of specific expenditures reviewed, no major problems of compliance with existing policy were revealed. It should be noted that Manitoba has some of the most restrictive policies relative to other jurisdictions. In addition, a review of administrative policies is currently underway to improve the effectiveness and relevance of those policies in today's public sector environment. Treasury Board Secretariat will pursue with departments to ensure they adhere to Government policy.

GOVERNMENT'S CENTRAL MANAGEMENT SYSTEM

STATUS OF MATTERS PREVIOUSLY REPORTED

Estimates

Last year we reviewed the Estimates, their development and the legislative review process and supporting information to determine whether possible improvements could be identified.

Our review identified opportunities that should be considered to improve information provided to Legislators, the Estimates, their development and the legislative review process. We believe our suggestions, if implemented, would provide a better basis for accountability.

We recommended the preparation of a comparative analysis between the Statement of Revenue and Expenditure in the Public Accounts and the information in the Estimates. The Department of Finance has acted on this recommendation and has prepared such an analysis for the Public Accounts for the year ended March 31, 1990.

Neither the Government nor the Legislative Assembly has been able to review and consider the other recommendations. Therefore, we report highlights of the matters identified last year.

We noted that, overall, the Estimates development process does not use current technology to advantage. In our view, a standardized, automated Estimates preparation system using current technology would enhance the process at the departmental level. We suggested the Government consider devoting resources to develop a standardized automated Estimates system for departments. Some departments have already developed automated systems. The Government may want to use one of those systems as a base.

The Government is in the process of reviewing the feasibility of an Integrated Financial and Management Information System. A feature of this system could include the capture and assembly of Estimates details from both a departmental and global perspective. Officials advised that they have already identified this for consideration. We support this initiative.

We observed that while the 240 hours assigned to Estimates debate is generous in comparison to other jurisdictions, it has not been sufficient to allow a meaningful review of the full range of government spending. Some years certain departmental Estimates only receive a cursory review and others may not be debated at all.

We suggested that consideration might be given to determining the practicality of developing Estimates on a two-year cycle. Half the departments might develop two-year Estimates one year, while the other half of the departments might prepare two-year Estimates the next year. This would allow Legislators more time to consider each department's Estimates. Also, if departments prepared Estimates every second year, departmental resources could be used more appropriately. Similarly, Cabinet, Treasury Board and Treasury Board support staff would only need to review the Estimates of one-half of the government departments each year. Their review could be at a more detailed level and be more effective. We recognize that there would have to be a process to allow changes to the Estimates, such as cost of living adjustments, in the second year. Also, there should be flexibility to allow reviews by the Assembly, as determined by the House Leaders.

To achieve accountability, the Legislative Assembly requires appropriate information at the start of the fiscal year, followed by subsequent suitable accounting and adequate reporting. The better the information provided, the better the Legislative Assembly can exact accountability.

We believe that the information included in the Supplementary Information for Legislative Review (Supplement) could be improved by providing the Legislators with enhanced information on operating costs of significant program/activities, how the program objectives are to be achieved and how expected program results are to be measured. This is important if annual reporting is to move beyond reporting only dollars spent, to reporting on results achieved.

We recommended that the Government consider improving the results-oriented information included in the Supplementary Information for Legislative Review.

We also observed that the Supplement does not provide information on the two major aspects of government revenue, being revenue from taxation and revenue from the Government of Canada. We recognize that the estimation of revenue is difficult, especially revenue from Canada. In our view, it is important for Members to understand the revenue base.

We recommended that consideration be given to providing the Legislative Assembly with more detailed information on significant revenues in the Supplements.

For Estimates debate, it might be appropriate for consideration to be given to providing Members with more information on the effects of funding expenditures by borrowings. It would be helpful if Members were provided with information available on expected borrowing rates for the borrowing program and the financial implications of the program ie: interest costs and their effect on public debt in the near future and on a longer-term basis. We support enhancing the linkage between expenditure and revenue, as presented in the Budget and Estimates, and the residual financing requirements. This would emphasize to Members that funding of proposed programs may increase both debt and debt servicing costs well into the future.

We recommended that consideration be given to providing Members with more complete analysis of the projected deficit and the borrowing program. In our view, this would be beneficial and help all Members and the public appreciate the importance of deficit and debt control.

In the past, the preparation and legislative review of the Estimates has not been on a timely basis. This has caused difficulties for Government departments and Government funded agencies. It has resulted in the Government operating with special warrants.

The Government has recently announced its intentions to improve the timeliness of the Budget and the Estimates process. We fully support this initiative and believe this would significantly improve the process.

We recommend that consideration be given to the above-noted recommendations.

Comments of Officials

Officials advised that Treasury Board, its support staff and departments continue to devote significant effort to improve the Estimates development process and the quality of information provided.

With respect to the Estimates Review by the Legislative Assembly, the Department of Finance is prepared to initiate a review in order to identify opportunities for improvement in the procedures associated with Estimates.

Planning

For several years we have been commenting on the importance of long-range planning on a government-wide basis.

Last year we reviewed the extent to which planning in the Manitoba Government had progressed in certain departments and agencies since the issuance of the Management Practices Guide in 1987. Each of the four departments we reviewed were experiencing significant difficulties in implementing the planning guidelines. For example, none of them could supply us with a formal strategic plan which had been approved and communicated to staff members. Important linkages between strategic planning and operational planning were either non-existent or incompletely developed. In general, we found that the agencies we reviewed had been more successful in formalizing their planning cycle.

Departments were assigned responsibility for implementing improved management practices. We found that insufficient action was being taken by departments to report progress centrally and to monitor progress in implementing the concepts set out in the Guide. We reported that assistance is required for those managers experiencing particular difficulties.

We recommended last year that the Government continue to act on its commitment to improve planning and take the necessary steps to bring about effective planning for the government as a whole. We recommended that consideration be given to establishing a reasonable schedule for each department to develop and implement the planning aspects of the Management Practices Guide. We reported that each department should be accountable to forward periodic reports as to its accomplishments in implementing the planning process. We also stated that the action required includes identifying a position or entity to whom departmental deputies should report their department's progress. This individual or entity should have authority and responsibility to encourage, monitor, evaluate and report on improvements in planning. This individual or entity should be responsible to evaluate the planning model itself to ensure that it remains practical and responsive to the needs of government and all levels of management. The individual or entity should be charged with the responsibility to make periodic progress reports to Treasury Board on this important area of management practice. We further recommended that a process be identified whereby this individual would be able to coordinate his or her efforts with those of the Crown Corporations Council. This would make it easier to ensure a common understanding of the information and planning needs of government and its public sector managers. No action has yet been taken to implement our recommendations.

Comments of Officials

Officials advised that departments will be reminded by formal communication that the responsibility for implementing government policies rests with individual departments. Department of Finance officials will conduct reviews of the status of the implementation of the policies set out in the Management Practices Guide in selected departments. Where implementation is found to be incomplete, timetables will be sought and monitored. Progress of departments toward implementation will be reported to the Management and Reform Committee of Cabinet periodically. This matter will be reviewed in conjunction with efforts to deal with the matter regarding Accountability for Government Policy Implementation.

Budgeting

We have recommended for several years that the Government develop and publish multi-year financial plans and budgets. Through the budgets, the Government could provide information on future year operations that would apprise private business and the public of the financial position and strength of the Government. The budgets would also demonstrate the decisions necessary for the Province not to extend itself beyond its financial limits. Multi-year budgets also would be valuable to Members of the Legislative Assembly during their annual review of the Estimates by providing them with meaningful supporting information. This would help the Members by placing the current budget in perspective with the longer-term plans. We believe that the business community would also benefit from longer-term information. It could aid them in their longer-term planning.

The Government has taken significant positive steps to develop multi-year budgets. The Government has required departments to prepare estimates for the budget year plus two future years. This has set standards for future development. The Government continues to direct departments to identify and submit to Treasury Board options to increase key department operations as well as options to reduce ineffective operations. This requires departments to analyze their operations, to consider potential changes and to focus on high priority and longer-term activities. The Government has identified an official within the Treasury Board Secretariat as being responsible for fiscal planning. The Government in its 1990 Budget included revenue and expenditure information on a total government basis for the 1992 and 1993 fiscal year. The Budget also included narrative information on the Government's concerns for the next two years.

The actions taken by Government resolve our previously stated concerns.

Accountability for Government Policy Implementation

In our 1989 report, we commented that there was a need to strengthen the accountability process to assure Government that its policy decisions (via Treasury Board or Cabinet) were appropriately implemented and carried out.

The Government has not had the opportunity to act on our recommendations.

In our view, there should be an accountability process that includes agreement on an overall plan for implementation and reporting. The plan should include scheduled dates for departments to implement specific policies. Part of the plan should require departments to report to Government, on an ongoing basis, progress on implementation of significant policies and initiatives and adherence with the policies. The Government should identify and communicate those significant policies or initiatives that need to be implemented, monitored and reported on.

We noted two examples where the approved polices were not implemented and carried out within the departments. The two examples concerned the policy regarding management practices and the internal audit policy.

The consultants who conducted the phase 3 independent review also had similar concerns.

We recommend that Government consider establishing an improved accountability process with appropriate reporting and monitoring to ensure significant Government policy decisions and initiatives are appropriately implemented and carried out. The roles, responsibilities and authorities of the officials and/or entities responsible must be clearly set out and communicated throughout government.

Comments of Officials

Officials advised that the concept of an accountability framework is currently being reviewed. Further, departments will be reminded by formal communication that the responsibility for implementing Government policies rests with individual departments. The Provincial Auditor's Office has identified the Management Practices Guide and the Internal audit Guide as two policy initiatives not appropriately implemented by Departments. The Department of Finance will assess the status of the Management Practices Guide through a review of selected departments. Where implementation is found to be incomplete, timetables will be sought and monitored. The approach to be taken regarding concerns with implementation of Internal Audit policies is described in the section dealing with

Internal Audit.

Management Practices

We reported last year that the consultants for Phase 2 of the independent reviews identified eight key common themes from the projects reviewed. These were:

- uncertain policy mandates and unclear program objectives;
- inadequate strategic planning of programs at the department or agency level;
- unresolved organizational structure issues within departments and between departments;
- inadequate program evaluation;
- inadequate management information on programs;
- evolving and uneasy relationship between Government and external agencies;
- inadequate forecasting of future costs of program changes and
- lack of program and productivity standards.

These eight themes are significant and identify opportunities for improvements to ensure the Government, its departments and programs operate efficiently and effectively.

The report from the consultant on Phase 3 of the independent reviews recommended that the Government take steps to improve accountability within government and to enhance central direction for overall accountability. The report also recommended improved planning, including multi-year planning; effective budgetary control; and effective monitoring and reporting within the government framework, including those agencies funded by government. The report further recommended that an evaluation process to assess organizational effectiveness be implemented.

We recommended that the Government take action to address issues raised in the Phase 2 and Phase 3 reviews.

The Government had each of the five departments involved in Phase 2 of the external reviews develop action plans to address the consultant's recommendations. The Management and Reform Committee of Cabinet has considered four of the five departments' action plans. Generally, the Cabinet Committee has approved the action plans and have directed the departments to implement the plans. In one instance, a steering committee made up of senior government staff has been established to address specific issues. In another case, the Cabinet Committee has instructed the Department to report back to the Committee on actions taken on a specific issue. However, for the most part the Cabinet Committee has assigned responsibility to the department to implement the action plans without further reporting on the progress of the implementation of the action plans. The action plan for the last department has been prepared but the Cabinet Committee has not had an opportunity to review the plan.

The common themes identified in the Phase 2 review were considered in the Phase 3 review. The consultant's report on Phase 3 recommended the development of an accountability framework for the Government. Prior to further consideration being given to adopting this framework, two pilot projects were undertaken to assess the practicality of the framework. An evaluation of the practicality of the framework has not yet been completed.

The Government has taken significant positive actions on these matters. However, in order to close the accountability gap, the Management and Reform Committee of Cabinet should assign responsibility to a specific individual(s) to follow up and report on the progress departments are making in implementing the approved action plans.

We recommend that the Management and Reform Committee of Cabinet review the actions plans of the last department as soon as practicable. We further recommend that the Cabinet Committee assign responsibility to an individual(s) to monitor and report to the Committee the progress that departments are making in implementing the approved action plans. Also, we recommend that the assessment of the accountability framework used in the two pilot projects be completed as soon as practicable. An action plan on the accountability framework should be developed for review and approval by the Management and Reform Committee of Cabinet.

This matter is now considered to be an issue of accountability for government policy implementation.

Comments of Officials

Subsequent to the issue of the Phase 2 reports, a number of organizational changes were approved by Treasury Board that essentially addressed the recommendations in three of the seven studies. As indicated, the Management and Reform Committee has reviewed the remaining studies, with the exception of one Department which will be scheduled in the near future. The responsibility for follow-up action regarding progress made on those recommendations rests mainly with the Department Heads. The status of recommendations will be considered during the next Estimates review. The results of the two pilot projects were presented to the Management and Reform Committee of Cabinet at the committee meeting of October 18, 1990. The Committee agreed that the effectiveness reporting framework has significant potential benefit for the Manitoba Government and it directed the Department of Finance to continue its efforts to develop application processes that suit the Manitoba Government environment.

Financial and Management Information Systems

We have reported for two years that improvements are needed to the Government's financial and management information system to provide the information necessary for financing/management purposes. We also reported that Department of Finance Officials identified this need and have initiated action to develop improved financial and management information systems.

We recommended that the Government continue in its efforts to develop an integrated financial and management information system.

To address this issue, the Department of Finance established a project to review and develop a practical model for an integrated financial and management information system. The project team met with departmental representatives to determine from a government-wide perspective the user requirements for the system. The project team also contacted several other jurisdictions to assess their systems. The project team is reporting to a steering committee of senior departmental financial officers and senior staff from central government agencies.

We are encouraged by the actions taken on this matter. We recommend that the project be completed as soon as practicable and recommendations for an appropriate integrated financial and management information system be forwarded to Cabinet for consideration.

Comments of Officials

The use of current technology in the development of a fully integrated financial and management information system offers opportunities to enhance the efficiency and effectiveness of the Government's financial and management information systems. The study, involving departmental representatives, is currently in progress and will be completed as soon as practicable. Once the study of Government requirements is complete, a Request for Information will be sent to potential suppliers of the required software in order to determine an estimate of the cost of purchasing and installing a new system. This will be followed by a report to Treasury Board requesting direction on the future action required in order to proceed.

Internal Audit

We previously reported that we had initiated a cross-government review of internal audit. The objectives of our review were:

- to determine the extent that internal audit has been established in government departments in accordance with the Government's 1982 Internal Audit Policy, and
- to determine whether internal audit in government departments are using appropriate management and audit practices to discharge their responsibilities.

We observed that seven departments were without internal audit. In our view, there was sufficient activity and expenditure to consider an internal auditor in the Departments of Finance; Culture, Heritage and Recreation; Northern Affairs; and the Civil Service Commission. Each of these entities were doing some aspects of what an internal audit section would be expected to do. However, we recommended that these departments consider establishing an internal audit function as soon as practicable.

The Department of Finance has acted on our recommendation and has established an internal audit function reporting to an audit committee. The other three entities are working to obtain the function. We recommend the Department of Culture, Heritage and Recreation, the Department of Northern Affairs and the Civil Service Commission obtain internal audit services as soon as practicable.

The expenditure and activity levels in the Department of Environment, the Department of Cooperative, Consumer, and Corporate Affairs and Executive Council may not warrant a full-time auditor. We recommended that these departments seek alternate solutions that will allow them to benefit from the internal audit process.

The Department of Environment has now contracted for internal audit services. The other two departments are working to obtain these services. We recommend that The Department of Cooperative, Consumer and Corporate Affairs and Executive Council take steps to obtain appropriate internal audit services as soon as practicable.

Our review also disclosed that several of the management and audit practices in departmental internal audit sections should be improved. We recommended improvement in the following areas:

- audit policy development;
- establishment of departmental audit committees, reporting to the audit committee or alternatively to the Deputy Minister;
- planning practices;
- development of audit criteria;
- working paper documentation;
- supervision and review;
- reporting standards and
- development of status reports.

We provided individual reports to each internal audit branch that we reviewed. These were discussed with the internal audit managers and the deputy ministers. Departments are in the process of acting on our recommendations.

We also concluded that a central audit resource group would be helpful in assisting deputy ministers discharge their responsibilities relating to compliance with internal audit policy. Assistance would be beneficial in the areas of interpretation of Treasury Board guidelines; developing departmental audit policy; and formulating internal audit procedures. A central audit resource group could also assist internal audit managers in developing audit processes; value-for-money auditing, audit risk assessment, report writing techniques; and determining training and development needs and coordinating related personnel training.

The Internal Management Audit Group (IMAG) is an informal body consisting of Government internal audit managers. In addition to its role as an informational forum, we recommended that IMAG, with leadership and guidance from the central resource group, take a more active role in the development of internal auditing within the Manitoba Government. We see an opportunity for greater involvement of IMAG in the areas noted in previous paragraphs. Internal auditors actively participating as members in the Institute of Internal Auditors is an additional means of maintaining and developing internal audit skills.

We recommend that action be taken to improve the management and audit practices of the internal audit functions in Government.

In future, the issue of internal audit will be reported on through the individual departments rather than from an overall focus in this report.

Comments of Officials

The Department of Finance, the Civil Service Commission and representatives of other government departments have initiated a project to evaluate the internal audit function within Government. The project will also involve the deputy ministers within the Government. The project will result in recommendations for the improvement of the internal audit process in Government and should address the audit concerns.

Program Expenditure

We previously reported that Government programs do not reflect the actual level of financial support being provided because central departments are paying certain significant program expenditures. Incomplete reporting of program related expenditures weakens the accountability cycle and could lead to decisions based on incomplete information.

The most significant of these expenditures concerns occupancy costs and staff benefits. Also, there is no attempt to allocate interest costs for general government program debt to specific programs even if the program resulted in an intentional increase to the deficit. Occupancy costs and staff benefits approximate $217 million for the current fiscal year (1989 - $208 million):

- Occupancy costs include leasing costs, janitorial services, expenditures related to capital and grants-in-lieu of taxes. The total of these centralized costs approximate $154 million for the fiscal year (1989 - $149 million) and
- Staff benefit costs include employer payments for unemployment insurance, Canada Pension, workers' compensation, disability insurance, dental plan costs, and expenditures for the Government's share of pensions paid to retired civil servants. These staff benefit costs approximate $63 million for the fiscal year (1989 - $59 million) in addition to the annual unrecorded pension costs.

We note that a charge-back policy has been implemented for a number of program support costs. These include training for departmental staff delivered by the Civil Service Commission; fleet vehicle costs, renovations, supplies, postal costs, land acquisition costs and land value appraisal costs administered by the Department of Government Services;

printing and advertising costs administered by the Department of Culture; highway maintenance costs, mechanical equipment services, warehouse stores supplies and air and radio services supplied by the Department of Highways and Transportation and field surveys and map distribution supplied by the Department of Natural Resources.

An appropriate accounting system should provide the information required for cost allocation to be made on a proportional basis. We continue to recommend that the Government review and determine the cost of implementing practical policies and procedures to allocate or charge-back significant centrally incurred expenditures to the applicable departments and Crown agencies.

Comments of Officials

Officials advised that staff of the Department of Finance's Financial and Management Systems Branch and Treasury Board Secretariat have been working on a project to develop a methodology for program evaluation that includes a detailed costing component that takes into account all relevant costs. It is modelled on the Federal Government's "Most Effective Organization" (MEO) study and could be a good alternative to the development of expensive allocation costing systems. When completed, a report will be presented to Treasury Board.

Training

Last year our Office selected training and development for review because we believe this is a critical aspect of human resource management. As a result of a cross-government review, we found that sound management practices related to managing human resources were not being followed in this area.

In several instances the reporting systems were inadequate. For example, we found that in the organizations with decentralized training and development structures, expenditures and activities were fragmented. The organization's overall financial commitment to training and development was not being effectively reported and so could not be evaluated.

We recommended that each entity produce a summary report of its training and development results. The results could assist decision makers in assessing whether key objectives for training and development have been met. A summary report should highlight areas where training efforts are being duplicated for common needs within the entity. A balance between in-house and external training should be examined. The extent to which target groups such as affirmative action groups or new supervisors and managers are being developed should also be measured. A summary should also provide information on whether opportunities are being made available to all staff members on an equitable basis.

We also found that in many cases the training and development activities were not linked to an overall plan. In order to evaluate training results and improve future training decisions, results must be measured against planned objectives. Inadequate reporting of training and development results does not facilitate this evaluation.

We recommended that departments strive to achieve a better link between training and development activities and long-term plans. We further recommend that the Government and executive management ensure that the entity's plans are sufficiently comprehensive and link current activities including training and development to long-term objectives.

Comments of Officials

While the Civil Service Commission would support improved processes for human resource planning linked to training and development activities, it would be more appropriate that the requirement to produce such plans come from Treasury Board as opposed to the Commission. Certainly, however, the Commission would be willing to provide assistance and support to departments in developing such plans and perhaps a component of our own new initiative "Partnerships in Excellence" could be used to assist Departments in this regard.

Treasury Board Secretariat advised that they would review this matter.

Public Accounts Committee

The Standing Committee on the Public Accounts is a Committee of the Legislative Assembly charged with the responsibility to review the Public Accounts and the Report of the Provincial Auditor. As such, this Committee has an important role to play in holding the Government accountable for its operations.

We previously recommended improvements to the Committee's operations to increase the effectiveness of the Committee. These recommendations are still applicable.

The Committee, to be most effective, needs to carry out its responsibilities on a timely basis. The Committee did not complete its review of the March 31, 1988 Public Accounts and Report of the Provincial Auditor until September 1989. As of October 31, 1990, the Committee had still not met to review the March 31, 1989 Public Accounts and the Report of the Provincial Auditor. A decision was made in November 1990 to defer review of the 1989 information until the 1990 documents are released. Both years will then be reviewed, early in 1991. We again recommend that the Committee meet on a more timely basis to carry out these important responsibilities.

The Committee has not arrived at a consensus on the matter of requesting department and agency officials to appear before the Committee to respond to concerns raised in our report or matters contained in departmental or agency annual reports. In our view, accountability would be improved if officials were in attendance at the Committee to answer questions. At other standing committees appointed officials are present to support the minister responsible. We recommend that the Committee consider calling ministers and their officials to respond to questions concerning issues raised in our report or other matters as the Committee may direct.

The Committee does not utilize a working agenda. We believe that an agenda agreed to by members and distributed in advance would improve the effectiveness of the Committee. We recommend that the Committee consider utilizing an agenda at future meetings.

In connection with the agenda, we previously recommended that questions to be raised at committee meetings should be provided in advance of the meeting. This would allow time to gather information for presentation to the Committee. Advance preparation of questions has only been used once in Manitoba. The time it was used significantly enhanced the efficiency of the committee meetings. We recommend that Committee members develop questions for the Department of Finance and/or the Provincial Auditor's Office and provide these questions to the appropriate office in advance of future committee meetings.

The Committee's former Chairperson was exploring with the Minister of Finance ways to increase the Committee's effectiveness. We recommend that the newly elected Chairperson continue this process.

Crown Agency Accountability to the Legislature

For the past two years we recommended that the Government strengthen Crown agency accountability to the Legislature.

The degree of scrutiny and control exercised by the Legislative Assembly over certain Crown agencies is less than for Government departments and departmental programs. In addition, there are inconsistencies in the level of monitoring of Crown agencies by the various committees of the Legislature.

The larger and more public agencies are receiving appropriate attention and appear before committees of the Legislature.

Manitoba Hydro, Manitoba Public Insurance Corporation and Manitoba Telephone System appear before the Public Utilities Board for rate approval. In addition, the Government has adopted quarterly financial reporting for the Liquor Control Commission, Manitoba Hydro, Manitoba Public Insurance Corporation and Manitoba Telephone System. These four agencies also hold public sessions in urban and rural areas on an average of two to three times a year. Recently, the Government has had the Forks Renewal Corporation and the North Portage Development Corporation appear before a committee of the Legislature.

The Crown Corporations Council, established under The Crown Corporations Public Review and Accountability Act, is currently monitoring 13 of the Government's agencies, all of which report to committees of the Legislature.

We consider these to be positive steps. Responsibility for the monitoring of other Crown agencies, including those in which the Government has only a partial interest, however, needs to be clarified. These include the Manitoba Arts Council, Manitoba Horse Racing Commission, Manitoba Intercultural Council, Manitoba Lotteries Foundation, Manitoba Research Council, etc.

We continue to recommend that the Government give further consideration to strengthening Crown agency accountability to the Legislature for all Crown agencies.

Comments of Officials

As indicated by the Auditor, the Government has taken significant steps to improve the accountability of many of the Crown agencies to the Legislature, with particular emphasis on the major Crown corporations. Further consideration will be given to the inclusion of other Crown agencies.

Administrative Practices for Crown Agencies

There continues to be a need in the Manitoba public sector for greater consistency of administrative practices among Crown agencies. Significant variances in practices between the civil service and Crown agencies also need to be rationalized. The roles of Ministers, Boards of Directors and executive management need to be clarified.

Particular practices we previously identified and reported as requiring rationalization were compensation of chairpersons and chief executive officers, variances between Crown agency compensation and civil service compensation and the payment of professional dues.

Positive steps have been taken which will assist in resolving these issues. The Crown Corporations Council is developing a policy manual for those agencies which it monitors. The Council has completed guidelines for the roles and responsibilities of Board Chairpersons, Boards of Directors and Chief Executive Officers. In addition, the Crown Corporations Council has been working to develop salary levels for Chief Executive Officers of those agencies it monitors. The review of the salary levels is based on an analysis of factors the Council considers important to setting salary levels. The Council has issued interim salary guidelines. Recent changes to deputy minister compensation packages have acted to reduce the differences between agencies and the civil service. A review is currently underway with respect to the salary ranges of certain other senior civil service executives.

We continue to recommend that appropriate action be taken to ensure greater consistency of administrative practices among all Crown agencies.

Comments of Officials

Crown Corporations Council will continue to work on the identified issues.

Departmental Annual Reports

Departmental annual reports complete the accountability cycle for government operations. We have reported for a number of years that annual reports need to be issued on a timely basis and should link the actual results and achievements with information and planned expectations included in departmental estimates material.

For the annual reports to be useful they need to be issued on a timely basis, within six months after the year end. They should provide financial accountability by comparing actual revenues and expenditures with the estimates and prior year actuals with explanations of significant variances. The reports should also provide performance accountability. Actual achievements should be compared to planned objectives included in the Supplementary Information for Legislative Review and should provide explanations of variances between achievements and plans. The reports should also present information on the fiscal year basis.

In February 1990, the Government implemented appropriate guidelines for the development and release of departmental annual reports. Departmental compliance with the intent and spirit of the guidelines will resolve our concerns.

We recommend that the Government monitor the development of the annual reports to ensure departmental compliance with the newly released guidelines.

Comments of Officials

Officials advised that development of the 1989-90 departmental annual reports is being monitored by the Department of Finance.

Central Management of Information Technology

Last year, we completed a review of the processes used by Government to provide central direction over the development and management of computerized information systems.

Our conclusion was that the process in place provided reasonable direction over the development and management of computerized information systems. However, we also identified some opportunities to improve the process.

The Department of Finance has the necessary information to identify overall trends in information technology across government. This enables the Department to recommend systems for development on a priorized basis. We recommended that the Department continue its initiatives in this area. However, an area of remaining difficulty is the identification of under-utilized technological and staff resources across government for assistance with the Government's technological development secondment program. To the extent practical, we recommended that information of this nature also be developed.

The Department has issued an Information Systems Technology Guide (Guide). The purpose of the Guide is to encourage and support a uniform minimum standard for the application of systems processes and to promote a degree of consistency across government. It also serves as a common reference source for policy direction, planning requirements, support services and material on information technology methodologies.

This Guide represents an excellent start in communicating Government policies and procedures in the information technology area. However, we recommended a number of improvements to the Guide. The Guide does not indicate approval by Treasury Board of the policies contained in the Guide. Such approval would add to the credibility of the document and clarify its importance to Government managers. We recommended that the Department indicate the approval by Treasury Board of the policy issues contained in the Guide.

We recommended that the section of the Guide dealing with the strategic plan be completed and distributed as soon as practical. This would provide appropriate communication of the strategic plan throughout government.

The Department is also involved in a number of ongoing projects which are important to government. We recommended that the Department periodically report to Treasury Board on the progress of its projects so the two bodies know that progress is satisfactory.

Action has not yet been taken on our recommendations.

We recommend that the Government take action to address these matters.

Comments of Officials

Officials stated that these matters are currently under review by the Information Technology Review Office within the Treasury Board Secretariat, which was established during the 1991 fiscal year. The Information Technology Review Office will be reviewing the Information Technology Strategy and revising it as necessary, particularly in light of the divestiture of Manitoba Data Services.

Computer Processing Disaster Recovery Plan

We previously reported, that in the event the Government's main computer facility becomes inoperable, a workable disaster recovery plan is critical to enable the Government to maintain operations. We also reported that the Government has developed an appropriate plan but still needed to decide which systems are critical to the operation of the Government and to priorize those critical systems.

We again recommend that Treasury Board priorize the Government's critical systems. Treasury Board's decision regarding the priority of the critical systems then should be communicated throughout Government.

Comments of Officials

Officials advised that in conjunction with the divestiture of the Manitoba Data Services, an Information Security Officer has been appointed to ensure the safeguarding and integrity of the Government's electronic information and data. That Officer will be responsible for developing a full security strategy and corresponding disaster priority strategy and associated processes on the Government's behalf.

Job Evaluation

The Civil Service Commission uses a combination of the grade description method, factor analysis method, job ranking method and a point rating method as its primary methods of job evaluation.

We previously recommended that the Commission develop a framework for determining the appropriateness and effectiveness of using specific methods of job evaluation for classifying positions within the Civil Service.

The Commission has taken action in response to our recommendation. The Commission has developed a framework for determining the appropriateness and effectiveness of using the specific methods of job evaluation for classifying positions within the Civil Service. The Commission uses the method of job evaluation for a given series or group of positions which will deliver the intended results in the most cost effective manner. Most of the classifications have been developed using a combination of the grade description and job ranking methods. This method is used for smaller groups of jobs having common characteristics. The point rating system is used with large heterogeneous groups of jobs while factor comparison is more appropriate for smaller such groups.

Recently more use has been made of the point rating method in classification reviews. In our view, this method offers the greatest opportunity to be able to demonstrate equity among and between positions in a classification series.

The Commission's action resolves our previous concerns.

Ministerial Expense Accounts

We previously reported that certain ministers' claims for reimbursement of expenses did not have adequate documentation to support the claim.

The Government issued a new policy statement to ministers which clarifies the documentation requirements and improves the reporting process.

We reviewed current ministers' claims for reimbursement of expenses for compliance with the policy. We observed that there is compliance with the policy and documentation requirements and practices are appropriate. We consider this matter resolved.

AGENCIES AND DEPARTMENTS

NEW MATTERS

Manitoba Cancer Treatment and Research Foundation

Inspection Audit

Introduction

The Manitoba Cancer Treatment and Research Foundation (Foundation) is an organization dedicated to the diagnosis, care and treatment of cancer patients, providing educational programs regarding cancer and conducting cancer related research. The Foundation receives virtually all of its general operating funds from the Government through the Manitoba Health Services Commission. The funding for the year ended March 31, 1990 amounted to $9.3 million. The Foundation also receives donations and grants from corporations and individuals for its trust and research activities, its clinical investigations and its building account.

The management and staff of the Foundation are dedicated in carrying out their responsibilities. The Board of Directors are volunteers who are committed to the Foundation and have devoted significant time and energy to the Foundation. We wish to acknowledge this and to thank the directors, management and staff for their cooperation and assistance during our inspection audit.

Objectives and Scope of Audit

We carried out the inspection audit under the authority of Section 17(4) of the Provincial Auditor's Act. Our objective was to determine whether the Foundation, significantly funded by public moneys, was appropriately organized and had adequate systems, policies, procedures and practices in place to ensure the accountability and protection of public moneys. It is important to note that our objective was not to evaluate the Foundation's programs. Rather, we reviewed management practices to determine whether management was adequately evaluating its programs.

The audit was carried out for the fiscal year ended March 31, 1990. Our examination was performed in accordance with public sector auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances.

Observations and Conclusions

In our opinion, the Foundation generally is appropriately organized and has adequate systems, policies, procedures and practices in place to provide accountability and protection of public funds. We observed that the Foundation has and is continuing to develop systems to monitor and evaluate its programs. We note that the monitoring and reporting of its programs generally relates to the treatment and the success of the treatment of cancer. The monitoring and reporting does not generally relate to the effectiveness of the treatment versus the cost of the treatment. This is a matter which is being given increasing attention by health care facilities in Canada. The Foundation appreciates the need for further work in this area.

The Foundation's planning is not as far along as the Board would like. However, we are encouraged by the Foundation's recent efforts to improve its planning. The Foundation's Board has scheduled meetings in September/October to further develop its role and mission statement and its strategic plan.

During our audit, we noted one instance where the Foundation needs to take action to comply with legislation.

Section 11 of The Cancer Treatment and Research Foundation Act provides for the audit of the accounts of the Foundation. The Act requires that if the accounts are audited by someone other than the Provincial Auditor, the appointment of the auditor will be by the Lieutenant Governor in Council.

Historically, the Foundation's Board has appointed the auditor. The auditor appointed is not the Provincial Auditor. The Foundation has not received approval by Order-in-Council for the appointments. As a result, the Foundation is not complying with section 11 of its Act.

We recommend that the Foundation request the Minister of Health to have the Lieutenant Governor in Council appoint the auditors on the recommendation of the Foundation's Board. Alternatively, legislation could be amended to enable the Foundation to appoint auditors without the approval of the Lieutenant Governor in Council. This would be in accordance with the practices of other health care institutions.

We also noted opportunities for the Foundation to improve its administrative practices, mainly in strengthening communication between the Board and appointed officials.

Comments of Officials

Officials agreed to take action to ensure compliance with the Act on the matter regarding the appointment of auditors.

Officials agreed with our recommendations to improve administrative practices and are in the process of addressing these issues.

Department of Cooperative, Consumer & Corporate Affairs

Insurance Corporations Tax

Introduction

The Insurance Branch of the Department of Cooperative, Consumer & Corporate Affairs is responsible for the assessment, collection and recording of taxes as provided for under The Insurance Corporations Tax Act. Approximately $24 million in tax is collected annually from approximately 300 companies and special brokers for insurance business transacted in Manitoba.

Objectives and Scope of Audit

The objectives of our audit were:

- to determine that the tax is assessed and collected in accordance with applicable authorities and
- to determine that the management practices and internal controls are adequate and reliable to ensure the proper assessment, collection and recording of the tax.

The audit was carried out for the year ended March 31, 1990. The audit was performed in accordance with public sector auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances.

Observations and Conclusions

We concluded that the tax was being assessed and collected in accordance with the relevant legislation. We concluded that the management practices and internal controls over the assessment, collection and recording of the tax were adequate. No significant weaknesses in the internal controls were observed.

Section 3(1) of The Insurance Corporations Tax Act requires that a 6% interest penalty be assessed on late payments of tax, in addition to the 1% penalty for late payment.

We note that the interest rate of 6% is significantly below the rate at which the Government has to borrow money to fund its operations.

We recommend that the Department review the necessity for this interest penalty and if it is be retained then the interest rate should be revised.

We also note the tax rates and penalties are currently embodied in the Act rather than in regulations. We also recommend that, when future revisions to The Insurance Corporations Tax Act are contemplated, consideration be given to setting tax rates and penalties, etc., by way of regulation. This would facilitate the process for making future rate revisions and to keep rates comparable to current borrowing costs.

Comments of Officials

Officials agree with our assessment of the situation in regard to the 6% interest penalty.

Officials have recommended that the requirement for this penalty be removed from the Act and that the rates be incorporated into a Regulation.

Department of Education and Training

Accounts Receivable

Introduction

Government departments must operate appropriate accounts receivable systems to collect monies owing to the Province. The General Manual of Administration sets out policy and the Financial Administration Manual provides procedural instructions for the handling of receivables by government departments.

As at March 31, 1990, the Department of Education & Training had accounts receivable totalling $3,517,000. Of that figure, $2,207,000 consisted of student loans and bursary payments receivable by the Manitoba Student Financial Assistance Branch. This Branch's receivables included $1,225,000 of accounts which were identified as having been outstanding for more than 30 days. Red River College had receivables for student fees, training program fees and other sundry items totalling $297,000 of which $49,000 had been outstanding for more than 30 days. The remaining accounts receivable of $1,013,000 consist primarily of receivables at the other two Community Colleges and at the Manitoba School for the Deaf.

Objectives and Scope of Audit

Our objective was to assess the adequacy of the policies, practices and system controls in place over accounts receivable at the Manitoba Student Financial Assistance Branch and Red River Community College for the year ended March 31, 1990.

We reviewed and evaluated existing systems controls and practices regarding the timely and accurate preparation of billings, their recording in the accounts, the collection efforts on overdue accounts, the reporting on the status of receivables, the review and approval of accounts before write off and the organization of file documentation.

Our examination was performed in accordance with public sector auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances.

Observations and Conclusions

Manitoba Student Financial Assistance Branch

1) *Billing Preparation*

The Branch prepares collection letters which are sent when assistance becomes repayable. A series of monthly requests are sent and the fourth and final notice mentions referral to a collection agency if the account is not paid. Collection letters should be accurately prepared and sent on a timely basis. Based on our sample, collection letters are accurately prepared. However, we noted instances where collection letters were delayed and not sent to students monthly or to the collection agency as required by Branch policy. Any delay in the collection process puts actual collection of the debt at risk. Such delays in the process are often due to the unknown location of former students. Sending notices by registered mail would confirm whether correspondence had reached the former students and help to determine proper addresses. We noted that the Branch uses registered mail infrequently.

We recommend that the Branch send collection letters on a timely basis and use registered mail where cost effective.

Our observations were related to older accounts receivable. The Branch has recently tightened procedures regarding the sending of collection letters. We are satisfied that collection letters are now being sent on a timely basis except in certain specific circumstances where it is not practical to do so, such as:

- when the student is returning to school;
- when the student proves he/she is receiving social assistance or unemployment insurance and
- when a large lump sum repayment is received.

Also, the Branch is referring those cases where former students can't be located to a collection agency.

The Branch has adopted a policy of sending final notices by registered mail when account balances are greater than $500. This is considered to be cost effective.

2) *Recording of Receivables*

Our audit determined that the Branch has adequate systems controls to ensure that accounts receivable are properly recorded on a timely basis. Our audit did not disclose any departure from these procedures.

3) *Collection of Overdue Accounts*

The Branch should take prompt and vigorous action to collect overdue accounts. The following aspects of the collection process need strengthening:

- The Government's Financial Administration Manual provides adequate general collection policies but the Financial Assistance Branch does not have documented up-to-date policies for collecting their type of receivables. The Branch does have a manual, but because it is outdated it does not provide guidance. As a result the Branch's collection efforts may not be adequate or consistent.
- Arrangements are frequently made which allow for repayment over an extended period of time, at agreed to rates. Our audit of outstanding receivables revealed cases of unreasonable arrangements. In certain cases the repayment schedule was such that interest charges were barely being

covered and that complete repayment would never be achieved.
- During our audit we noted uncertainty as to the applicability of the statute of limitations to the Branch's collection efforts. The Limitations of Actions Act provides that collection actions must be initiated within a six year limit. The Branch has contradictory legal opinions as to whether the Branch is bound by this Act. Consequently, the Branch may not be seeking collection on older accounts despite having legal authority to do so.

Prompt and vigorous efforts to collect overdue accounts are necessary in order to ensure repayment of collectible accounts within a reasonable time frame and to determine those accounts which cannot be collected. Failure to enforce such efforts leads to receivables being lost and excess time and cost being required to administer their collection.

We recommend that the Branch:

- document its collection policies in a manual;
- make reasonable repayment arrangements and
- obtain legal clarification as to whether its collection efforts are bound by the statute of limitations.

Comments of Officials

- Officials agree with the recommendation and indicated that the policy and procedures manual will be reviewed and updated over the next year.
- Officials agree that the situation should not exist where complete repayment is impossible due to unreasonable payments. The Branch plans to address these concerns by:
    - implementing a newly available computer software package for computing repayments;
    - requiring management review and approval of all repayment schedules;
    - revising the Repayment Agreement to allow the Branch to periodically review repayment terms and
    - requiring debtors to provide verification to support claims of financial hardship.
- As a result of our audit, the Branch has sought and received legal clarification regarding applicability of the statute of limitations. The opinion advises that in most cases the Branch is considered to be bound by the statute of limitations. However, where the situation is unusual or legal action is to initiated in another jurisdiction, additional legal advice may be required. Officials stated that if further legal advice is necessary it will be sought on a timely basis.

4) *Reporting*

Management requires accurate and meaningful status reports in order to make informed decisions. An aged accounts receivable report is prepared on a monthly basis for management review. However, this report does not *reflect the actual* outstanding status of accounts receivable. Our review revealed instances where the report needs to be improved:

- The "current" category of the aged accounts receivable report includes "contingent" accounts. Contingent accounts will become repayable at future dates based on the terms of the assistance. Contingent accounts should only be considered as current accounts receivable at such time as the debt becomes repayable. By including all contingent accounts, the aged accounts receivable report overstates the value of current accounts receivable.
- In certain cases accounts are shown as current despite having been outstanding for some time. The aged accounts receivable report includes a category called "on monitor". This category refers to accounts which are held in abeyance pending resolution of terms specific to the account. Upon resolution of the matter, the account is reflected as current on the aged accounts receivable report even though it may have been outstanding for a long period of time. The report should make management aware of the actual outstanding status of accounts receivable.
- Certain accounts are shown as having been outstanding for 4 months when they are in fact overdue longer. The Branch's policy is to refer accounts to a collection agency after 4 months without payment. Accounts shown as outstanding for 4 months include accounts which have been overdue for a longer period of time but have not been referred to a collection agency.

The Branch's aged accounts receivable report does not provide management with the information needed to make informed decisions. We recommend that the Branch structure its aged accounts receivable report so that it clearly reflects the actual outstanding status of accounts receivable.

Comments of Officials

Officials agree that the aged accounts receivable report requires review and restructuring to reflect an actual status. The Branch has now completed implementation of a new computerized accounts receivable system. The Branch has taken note of our concerns and enhancements to the software program will be requested.

5) *Write-off Of Uncollectible Accounts*

Accounts receivable should be reviewed periodically and uncollectible accounts written off in accordance with government procedures. The Branch is following Financial Administration Manual guidelines in this area and no deviations were noted.

6) *File Documentation*

Organization of documentation in student files needs to be improved. Material should be attached to files and organized in a standard format. We noted that file folders were often crammed with loose documentation in arbitrary order. Such conditions could result in lost documentation and/or wasted time searching for specific information.

We recommend that the Branch establish a standard file format and organize each of its files accordingly.

Comments of Officials

Officials agree that files in disarray are non-productive. The Branch has a standard format for document filing and adherence to this standard will be reinforced.

Red River Community College

Our audit of the Red River Community College receivable transactions determined that adequate systems controls exist over accounts receivable for the areas reviewed. Red River Community College is following accounts receivable procedures set out in the government's Financial Administration Manual. Our audit at Red River Community College revealed no deviations from these procedures.

Integration Of The Northern Training And Employment Agency And Northern ACCESS Programming Into Keewatin Community College

Introduction

On July 4, 1989 Treasury Board approved the integration of the Northern Training and Employment Agency (NTEA) and Northern ACCESS Programming (NAP) into Keewatin Community College (KCC). This approval gave effect to a Department of Education and Training objective to consolidate responsibility for northern post secondary education, training and adult education within one organization. KCC was established to provide educational services north of the 53rd parallel and was also made responsible for these other programs. The anticipated benefits of this integration included eliminating duplication of services by a variety of training agencies, providing the ability to share resources, the ability to coordinate all education and training delivery, greater access to distance learning capability and a community-based needs assessment and program administration mechanism for northern Manitoba.

Objectives and Scope of Audit

Our objective was to review the KCC's revised organizational structure to determine the extent to which actions had been taken to achieve the effective integration of NTEA and NAP into KCC.

Our examination was carried out in accordance with public sector auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances.

Observations and Conclusions

Based on our review, reasonable actions have been taken or are in the process of being taken to ensure the effective integration of NTEA with KCC and to ensure the concerns regarding the integration of NTEA and NAP with KCC have been addressed.

Special Audit Manitoba Community College

During the fiscal year ended March 31, 1990, at the request of the Minister of Finance, we completed a special audit pertaining to allegations of missing computers at Red River Community College. Our special audit report dated October 25, 1989 stated that our audit did not disclose any information to support the allegations of missing computers. However, in our report we made recommendations to improve internal control over assets owned by the College. These included improving the records for the recording of capital acquisitions and the segregation of duties, and strengthening access control to the computerized inventory records at Red River Community College. Officials of Red River Community College have implemented our recommendations. Consequently, our concerns have been resolved.

Department of Health

Regional Office Operations

Introduction

In order to deliver services, the Department of Health has established eight regional offices throughout the Province. The regional offices are responsible for the delivery of a wide range of community health and social programs. The regional offices deliver these programs by working within communities and collaborating with other health care agencies. There is also a very close working relationship with the Department of Family Services.

Objectives and Scope of Audit

The objective of our audit was to review, and determine the adequacy of the financial management and administrative controls for a regional office in the Department.

Our audit covered the regional office operations related to estimates preparation, expenditure monitoring, use of direct purchase orders, payroll, personnel and other general administrative areas. We also reviewed the procedures in the Department's Central Office related to regional offices. The period reviewed extended from December 1989 to August 1990.

Our examination was carried out in accordance with public sector auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances.

Observations and Conclusions

Our audit of the regional office indicated that it was generally well managed, however, we observed a number of areas where the regional office's financial management and administrative controls should be strengthened.

Our review of selected personnel files indicated that staff performance evaluations were not all completed annually as required by departmental policy. In two instances, there were no performance evaluations on file since 1980. Performance evaluations are an important aspect of human resource management. They assist staff in meeting their goals and objectives and with their career development. We recommend that staff performance evaluations be conducted at least annually and maintained in personnel files.

The commitment accounting system requires the preparation of status reports commencing June 30 each fiscal year and monthly thereafter to support the monitoring and control of commitments. Our review of the June 30, 1990 status report indicated that it was appropriate. However, there was a lack of formal documentation in support of the report and some variance explanations should be expanded. Documentation should include quarterly status calculations, including adjustments, and expanded explanations for variances between commitments and allotments. This information would aid managers in evaluating the report and would further enhance the control over commitments. We recommend that the quarterly status calculations, especially adjustments, be documented and variance explanations be expanded to provide improved information.

The regional office is not provided with a financial and administration services manual. Such a manual should be provided so that information which is specifically applicable to regional office operations is available to assist regional finance and administrative officers in carrying out their responsibilities. We recommend that regional offices be provided with a financial and administration services manual.

The use of emergency direct purchase orders was appropriately restricted, approximately one per month. However, we found that they were not properly controlled and accounted for. We observed two instances of these documents not issued in accordance with the Government's Purchasing Branch guidelines which provide effective control over emergency purchases. Also, the used forms were not appropriately distributed. We recommend that these documents be controlled and accounted for in accordance with Purchasing Branch Guidelines.

We also observed opportunities where the financial management and administrative controls could be strengthened in the Department's Human Resource Management Branch and Administrative Services Branch.

The departmental payroll/personnel area in Winnipeg maintains all sick leave records. Deduction authorizations and completed TD-1's for income tax deduction purposes are also retained there. Our review of these records for the personnel files selected for review at the regional office indicate instances of sick leave cards in arrears, all-charity deduction cards not being on file and, in one instance, a TD-1 income tax deduction form was not on file. These documentation issues are important administrative matters that are necessary to support and control sick leave and the employee payroll. Without appropriate documentation, errors regarding sick leave utilization and payroll preparation may go undetected. We recommend that the central personnel records be reviewed to ensure that all sick leave records are maintained in a current position and payroll deduction documentation is on file where appropriate.

Regional expenditure status reports are a reporting feature that assists management in controlling and evaluating operations. It is important that the reports provide meaningful information. The regional offices have not been advised as to whether the reports provide the type of information that management requires. We recommend management communicate to the regions the usefulness of the report and the adequacy of the information provided.

We recommend that departmental officials initiate a review of the financial management and administrative controls in regional offices on a timely basis. The review should address the issues raised in this report.

Comments of Officials

The officials of the regional office agreed with our observations and committed to take appropriate action to strengthen their financial management and administrative controls. The action to be taken will include improved documentation and variance explanations for financial status reports, establishing appropriate controls for direct purchase orders and monitoring the completion of performance appraisals on a timely basis.

The officials of the departmental administrative area agreed with our observations and also committed to take appropriate action to strengthen their financial management and administrative controls. The action to be taken will include the development of a financial and administrative services manual for regional offices, improved filing of payroll deduction information, establishment of a policy to maintain sick leave records in a current position and taking a closer look at the quality of information on financial status reports. The internal audit area will also be reviewing the operations of a regional office as part of the annual audit work plan.

The Executive Director of Regional Operations has also brought our concerns to the attention of all regional directors and asked them to review their operations in several specific areas. This matter will also be discussed at the regional directors' meetings planned for December 1990.

We believe that the actions to be taken by departmental officials will address our concerns.

Department of Highways and Transportation

Construction Program

Introduction

The Department of Highways and Transportation has established thirteen districts throughout the Province to provide field engineering and management as required for construction, maintenance and grants-in-aid for local government districts, towns and villages. The objective of the Construction - Roads and Projects program is to construct new highways and structures where required and to reconstruct and upgrade the existing highway system.

Objectives and Scope of Audit

The objective of our review was to review the management practices and controls in place for highway projects to determine whether they were adequate and effective. We randomly selected two projects from the current program. We reviewed a contract for concrete and bituminous pavement of approximately 3.3 miles on Provincial Trunk Highway No. 1 from P.T.H. No. 100 to the Winnipeg east limits which was issued for approximately $3.4 million. We also reviewed a contract for grading of approximately 10.2 miles on Provincial Road No. 359 from P.R. No. 354 westerly which was issued for approximately $1.0 million.

Our review of the construction projects encompassed aspects from the planning stage, through the tendering process, construction progress monitoring procedures, preparation of construction progress payments to the contractor and the recording of these payments in the Department's records. The review was conducted in August 1990 and included a visit to each of the construction sites.

Our examination was carried out in accordance with public sector auditing standards and accordingly included such tests and other procedures we considered necessary in the circumstances.

Observations and Conclusions

The 1991 highway construction program was approved by Cabinet and Treasury Board. The costs for these projects were estimated by the Department of Highways and Transportation engineers prior to tendering. These projects were publicly tendered and the bids were publicly opened. Staff appropriately analyzed the bids. The tenders were awarded to the lowest bidder in both instances. We visited each construction site and reviewed the project with the project engineer responsible for supervising the project on behalf of the Department. We observed that appropriate construction monitoring procedures were in place to ensure that the projects met the construction contract specifications. There was also appropriate reporting to the Assistant Deputy Minister responsible for the construction program. We determined that progress payments and holdbacks were being made on the basis of appropriate construction monitoring reports from the departmental engineers responsible for the projects.

Our review determined that there were adequate and effective management practices and controls in place over these two contracts within the current Construction Roads and Projects program.

Department of Justice

Court Accounting Systems

We believe that court management should strengthen control over outstanding fines and costs by implementing a receivable system. Presently, the Department cannot readily determine the amount or source of receivables. A receivable system would provide records essential to ensure an effective check on the assessment, collection and allocation of revenue. Receivable systems in court offices would provide court management with improved information to monitor and control receivables. This information would also aid in formulating a collection policy for receivables.

We recommend that the Department implement a fines and costs receivable system in the courts as soon as practicable.

Comments of Officials

Officials agree that a receivable system is necessary. When appropriate approvals are received, the approach will be to use microcomputers in the courts to control fines and costs receivable, beginning with the Provincial Court.

Personal Property Security Registry

We believe that management should improve control over personal property deposit accounts. The Department sets up deposit accounts for frequent users of the Registry such as banks, credit unions and law firms. These institutions deposit a predetermined amount and the Department deducts fees for lien registrations, lien checks and inquiries by each institution. Department staff do not reconcile deposit account subledger cards to a control total on a regular basis. A reconciliation improves internal control, helps prevent misuse of funds and aids in the detection of inaccuracies in personal property deposit accounts. Department officials initially advised us of an April 1990 target date for completion of a computerized accounting system with regular reconciliations. The computerization and reconciliation have not yet started.

We recommend that the Department proceed with the proposed system revision to ensure the monthly reconciliation of deposit accounts to a control total on a timely basis.

Comments of Officials

Officials stated that an automated accounting system with monthly reconciliations will be implemented within the 1991 fiscal year. In the interim, the Department's Internal Audit staff have implemented a temporary accounting system to monitor the deposit accounts.

AGENCIES AND DEPARTMENTS

STATUS OF MATTERS PREVIOUSLY REPORTED

Manitoba Development Corporation

Flyer Industries Limited

Effective July 15, 1986, Flyer Industries Limited was sold to BV Carrosseriefabriek den Oudsten en Zonen. The Corporation's most recent estimate of the overall net cost of the divestiture to the Government is $106 million (1989 estimate - $109 million). This includes a provision for approximately $1 million recorded in MDC records representing future anticipated net recoveries.

Unless there is a significant change in these estimates, we will no longer be reporting this matter.

The Pas Forestry Complex - Receiver

The Receiver was appointed on September 24, 1973. The Receiver's activities concerning The Pas Forestry Complex are substantially complete. However, certain third party proceedings still require resolution. It still is not possible to proceed to apply to the Court for discharge of the Receiver.

A summary of the Receiver's accounts, as provided by the Manitoba Development Corporation, for the fiscal years ended September 30, 1989 and 1988 is presented below as a matter of information:

	September 1989	September 1988
Receipts:		
Interest income	$ 32,479	$ 23,128
Recovery of tax	13,441	-
Total receipts	45,920	23,128
Funds on hand, beginning of year	317,131	294,003
Funds on hand, end of year	$ 363,051	$ 317,131
Cash in bank and term deposits	$ 86,415	$ 88,496
Funds on deposit with Minister of Finance	276,636	228,635
Funds on hand, end of year	$ 363,051	$ 317,131

Unless there are significant changes to the Receiver's accounts, we will no longer be reporting this matter.

Manitoba Intercultural Council

During the fiscal year ended March 31, 1989 the Office undertook a special audit of the Manitoba Intercultural Council (MIC). Our report was provided to the Minister of Finance on September 8, 1988, and subsequently made public. The Executive Committee of MIC together with senior officials of the Department of Culture, Heritage and Recreation promptly developed an action plan to resolve the concerns raised in the Special Report. By March 31, 1989, the Executive Committee had taken action to resolve most of the concerns contained in the special report. Other concerns dealing with MIC's grant operations were resolved during the fiscal year ended March 31, 1990. MIC's grant responsibilities were transferred to the newly established Multicultural Grants Advisory Council, which operates as part of the Department of Culture Heritage and Recreation. We consider our concerns resolved.

Manitoba Research Council

For the past two years we have reported that improvements were required to the Manitoba Research Council's financial information systems and certain aspects of its management practices.

The Council has been actively working on the development of a new computerized financial and management information system. This system is a necessary requirement to improve management practices generally, since it will provide the information necessary for management purposes. We recommend that the Council proceed with the implementation of the new system as soon as practicable.

Comments of Officials

Management anticipated the system would become operational in the year ending March 31, 1990, however implementation has been delayed. During the year, suitable equipment and software were installed. However, the project did not proceed as quickly as expected. Management expects that the system will be fully tested and operational by the end of 1990 and has taken appropriate action to bring this about.

MTX Telecom Services Inc.

The wind-down of MTX Telecom Services Inc. (MTX), the wholly owned subsidiary of the Manitoba Telephone System, is not yet complete. The wind-down has been proceeding in an orderly manner. However, since several matters still require resolution, it is not possible to make a final determination of the costs of winding down MTX at this time.

Public Trustee's Office

For the past two years, we reported that the Public Trustee's Office (PTO) required a strengthening of its comptrollership function.

The PTO acts on behalf of persons who die intestate or who are affected by various disabilities, mental disorders or age. The PTO is in a particularly sensitive position of public trust. Estates and trusts under administration again increased during the year ended March 31, 1989 by approximately $5.3 million to a total of approximately $100 million. This increase reflects a continuation of prior growth trends, and heightens the urgency to strengthen the comptrollership function.

Our audit identified a number of required control improvements which support the need to strengthen the comptrollership function. These included the need for: improved documentation and monitoring by management of clients' chattels and the recording of assets, improved human resource planning, improved documentation of key procedures, an internal audit function and a review of the investment policies for the Common Fund.

In addition, as we reported last year, the amortization of premiums paid on bond purchases had not been processed properly in the trust equity accounts. This resulted in overpayments to trust accounts. Officials in the Departments of Finance and Justice have worked with the Public Trustee's Office and have now resolved this matter. A strong comptrollership function is required to avoid similar situations in the future.

We believe that this matter requires urgent attention. We recommend that the Public Trustee, in conjunction with the Department of Justice, undertake a thorough review of these operations and develop an action plan to strengthen practices and controls for these operations. The plan, with current and future workload projections, together with staff resource and cost requirements, should be presented to Government for its consideration and action.

Comments of Officials

Subsequent to the March 31, 1990 year-end, the Public Trustee retired. A permanent Public Trustee has not yet been appointed. Consequently the action plan has not yet been prepared.

The Minister of Justice and Attorney-General has advised us that his Department will be working closely with the Public Trustee's office to address the findings in our report. Officials from the Public Trustee's office have indicated that several of the required control improvements identified during our audit have been implemented. The remaining issues continue to be reviewed with final consideration to be delayed until a permanent Public Trustee has been appointed and becomes familiar with the Office.

Workers Compensation Board

Since 1983 we have reported that the Board's assessment practices are not in compliance with The Workers Compensation Act. The Act requires a level of assessments in each Class Fund sufficient to provide adequate funds to pay all compensation liabilities. For several years, the annual assessment rate has not provided adequate funds to cover the current and future costs of accidents incurred in that period.

The main Class Fund, known as the Class E fund, represents the general body of employers. This Fund has recorded annual deficits on its operations from 1981 to 1988 and has been in an accumulated deficit position since 1984. For the year ended December 31, 1989 the Board set the assessment rates for the Class E Fund at a sufficient level to meet anticipated costs. For the first time in eight years, the program generated an operating surplus in 1989 and is forecasting a modest surplus for 1990. However, despite this favourable change from the trend of deficits established in the 1980's, the fundamental problem of the significant accumulated unfunded liability still needs to be addressed.

The other Class Funds represent employers who are self-assurers. These employers are the Canadian Pacific Railway Company, the Canadian National Railway Company, the Province of Manitoba and the City of Winnipeg. For the year ended December 31, 1989, these Funds incurred a deficit of $2.7 million, increasing the accumulated unfunded liability for these Funds to $36.4 million. The unfunded liability can be attributed to the historical practice whereby these employers are on a pay-as-you-go basis and are not assessed to provide funds to cover future costs for accidents incurred. The Board has identified a number of options to address this liability and is actively pursuing a resolution of the matter.

Last year we reported that the Workers Compensation Board took a number of positive steps to address the issue of compliance with legislation and the need for a sound fiscal policy for funding the Board's operations. We also reported that the Board developed a comprehensive plan, for discussion with Government, which was designed to provide the basis to formulate a strategy to address the issue of the unfunded liabilities. The comprehensive plan was the first of its kind in the history of the Workers Compensation Board. In 1990, the Board continued to build on the initiatives to reform the compensation program and its administration. These efforts have resulted in major changes in the Board's approach, organizational structure, and management controls.

These actions show that the Board is committed to address the issue of compliance with legislation and to adopt a sound fiscal policy for funding its operations. We again recommend that the Board continue its efforts, and that the Government take actions, to address these matters.

Comments of Officials

The Board of Directors will begin deliberations, before December 1990, on a proposal, developed by its administration and advisors, for it to recommend legislative amendments to the Government. These proposed amendments, if enacted by the legislature and implemented in conjunction with policy and other measures within the responsibility and purview of the Board, are projected to provide the program framework within which the Board would have the opportunity to retire its unfunded liabilities within a reasonable period of time. These proposed amendments form a component of an overall fiscal strategy that would fully provide for the Board's fiscal requirements in future years.

Department of Agriculture

We previously recommended the Department and the Manitoba Agricultural Credit Corporation take appropriate action to resolve the delinquent accounts receivable pertaining to the Beef Producers Income Assurance Plan.

The Minister has recently approved a plan to write-off the delinquent accounts. Department officials are in the process of working out the arrangements for the write-off of these accounts in the both the Department and the Corporation. The completion of these actions will resolve our concerns.

Department of Cooperative, Consumer & Corporate Affairs

The Cooperatives Act

We previously reported that a number of cooperatives have neither appointed auditors nor submitted financial statements for departmental review in accordance with The Cooperatives Act.

The submission of financial statements and subsequent review by the Department is a feature to protect members of the cooperatives. We recognize that the requirement for all cooperatives to appoint auditors may place a financial burden on small cooperatives and appropriate provision for such cases should be made.

A proposed comprehensive review of the legislation was been delayed due to a reorganization in the Department. In addition, the review has been more time-consuming than expected.

We recommend the Department complete the review of the legislation and recommend appropriate amendments which continue to adequately protect members of cooperatives. To ease the burden on small cooperatives, consideration could be given to having small cooperatives submit unaudited financial information and the Department taking other appropriate compensating control measures. When the legislation has been amended, we recommend the Department develop and implement an action plan to ensure compliance with the amended legislation.

Comments of Officials

Officials stated that the first round of the legislative review has now been completed and areas requiring amendment have been identified. It is planned that proposed amendments to the Act regarding areas of non-compliance will be dealt with first. The plan is to develop and present these proposed amendments to the next legislative session.

The Cemeteries Act

We previously reported that there was not adequate control over funds prepaid by the public to cemetery owners for burial services. The Public Utilities Board is currently reviewing options for the establishment of a legislative trust account arrangement for services purchased from a cemetery owner to protect consumers if services are not performed. This would require cemetery owners to place some prepaid funds into trust accounts that could only be used for the specific services for which the prepayment was made. This would protect consumers from the loss of these funds if cemetery owners encounter financial difficulties.

We recommend appropriate legislative changes be made to adequately protect the public. We further recommend that the Public Utilities Board implement procedures to adequately monitor the trust funds.

Comments of Officials

Officials advised that appropriate draft amendments to address this concern will be developed. The plan is to develop and present the amendments to the Minister as soon as practicable.

Regulatory Function - Credit Unions & Caisses Populaires

Last year, we performed a review to determine whether the Department was developing appropriate monitoring and reporting processes to enable it to carry out its regulatory mandate. Our review indicated that, although significant steps were being taken to strengthen the Department's regulatory function, there was no overall detailed action plan to monitor and report on the progress. We recommended that the Department develop a detailed action plan of the processes to strengthen the regulatory function.

The Department has now developed an appropriate detailed action plan with improved reporting to the Minister and Deputy Minister.

We also recommended the Department continue to work with the credit union and caisse populaire movement to decrease the risk of financial assistance from the Government.

Officials of the Credit Union Stabilization Fund and Le Fonds de Securite des Caisses Populaires are currently reviewing the equity plans of credit unions and caisses populaires and working with the institutions to ensure the credit union and caisses populaires movement remains strong. The Department also plans to continue to closely monitor credit unions and caisses populaires.

The actions taken resolve our concerns.

Department of Education and Training and Public Schools Finance Board

Government Support to Education

Last year we reported that there was a need to clarify both the mandate and organizational structure of the Public Schools Finance Board (PSFB) and the Department of Education and Training as it relates to the Government Support to Education program.

The PSFB Act indicates that the objectives of the PSFB are to facilitate the financing of the Education Support program for school divisions and to assist boards of school divisions in the economic operation of the school system. The PSFB Act also provides that there may be appointed such employees as are necessary to conduct its business and that the Minister may transfer employees of the Department as necessary on a temporary basis. As well The PSFB Act provides that the Government Support to Education Fund shall be under the control and supervision of the PSFB.

The Public Schools Act directs the PSFB to provide support under the Government Support to Education program to each school division as provided in the regulations. This Act also gives the PSFB control over capital acquisitions and disposals, and other matters of an administrative nature.

We concluded that the PSFB is primarily responsible for the financing of the Government Support to Education program. In actual practice, the PSFB restricts its attention mainly to capital activities of the school divisions. This represents less than 10% of the cost of the Government Support to Education program. The operating portion of the program is administered by Department employees, with only partial recovery from the PSFB. Although the Board conducts a review of advances and certain operating grants, these do not receive nearly the same attention by PSFB officials as does the capital program. For example, the annual report of the Board includes commentary only on the capital program. In our opinion, this deviates from The PSFB Act which requires the Board to report on all its transactions.

Because the Board has taken a restrictive view of its mandate, certain administrative costs incurred by the Department have not been charged to the Government Support to Education Fund. Thus the Fund does not appear to be paying for the all the costs of administering the Board as required by the Act. Because these costs have been omitted, we have had to qualify our opinion on the financial statements of the Board.

Officials of the PSFB and the Department of Education and Training have completed a review of the PSFB's role and mandate. On the basis of this review, the Minister is recommending amendments to The Public Schools Finance Board Act and The Public Schools Act. These proposed amendments, which would restrict the role of the PSFB to that which it currently fulfils, have been prepared for consideration of the Legislature. We recommend that the proposed amendments be placed before the Legislature as soon as practicable. Changes to each entity's organizational structure should be considered to reflect the revised mandates. We also recommend that future financial statements of the PSFB be prepared in a manner consistent with the mandate and organizational structure of the PSFB.

Comments of Officials

At the direction of the Minister, officials of the Board and the Department have taken action in response to the audit concerns. The Minister has approved a reorganizational plan of action that will meet the desired objective and has directed his staff to initiate appropriate action in this regard. The reorganization encompasses the following:

- The Board continues to have an appointed chair who reports directly to the Minister;
- The Board will have its own staff who will report to and be directly responsible to the Chair;
- The Board will have direct responsibility and accountability for budgeting and administering the capital programs to schools, and for collection of education support levies;
- The Department will have direct responsibility and accountability for budgeting and administering the operating program to schools. All levy funds for operating purposes will flow through the Board to the Department for that purpose;
- The Department will continue to coordinate the overall budgeting process for capital and operating programs, and will coordinate reporting and monitoring of the financial operations of the Department and of the Board;
- The two Acts, The Public Schools Act and The Public Schools Finance Board Act, have been reviewed for required amendments. These proposed amendments have been submitted to Legislative Counsel as 1990/91 proposals;
- The Departmental costs (administrative) will be charged to the Government Support

to Education Fund by way of a service fee established by agreement between the Board and the Department and

- The financial statements of the PSFB will be prepared in a manner consistent with the mandate and organizational structure of the PSFB, i.e. the statements will reflect the operating and capital activities of the Fund and will distinguish between the Board's administrative expenditures and the Department's administrative expenditures.

Department of Family Services

Introduction

For several years we have been commenting on the Department of Community Service's need to improve its internal management controls. In April 1989 the Department of Community Services was amalgamated with the Department of Employment Services and Economic Security to form the Department of Family Services. This necessitated a revised organization structure to facilitate effective management of a larger and more complex department. The Department, under the direction of the Minister and Deputy Minister, has taken steps to develop this revised structure. Since its formation, the Department has undertaken to review and reorganize many of its operating divisions in order to address the need for improved internal management control, accountability of external agencies and effective program delivery. Of particular note, the Department has organized Management Services, the Agency Relations Bureau, and Internal Audit under an Associate Deputy Minister. As well the Department has held strategic planning sessions. These sessions, which included participation by central government staff and senior staff of the Department, focused on the new Department's mission, goals, operating principles and strategic priorities for the 1990's.

These actions resulted in a significant strengthening of the planning and organizing functions. The Department has also taken steps to improve the reporting, controlling and evaluating functions. We support the approach taken by the Department toward improving its operations.

Internal Management Controls

Our reports on the Department of Community Services have included concerns that the Department's monitoring and management control responsibilities had not been carried out effectively. The Minister and Deputy Minister of the new Department of Family Services have taken action on these concerns and are setting up a organization structure which will include a strong comptrollership function with improved internal management controls. The Department established a review committee of senior government managers to study and define an optimum organizational structure for the Administration and Finance Division. Based on the committee's recommendations, the Department created a Management Services Division headed up by an Executive Director, who also has responsibility for the Department's comptrollership function. One of the main features of this Division, from a comptrollership standpoint, is the Program Budgeting and Reporting Branch. This Branch is responsible for coordinating the estimates process and the budgeting and reporting systems. Staff of this Branch will also monitor expenditures, revenues and program outputs as well as evaluate and analyze program proposals to provide an ongoing challenge function. We support the steps taken by the Department.

The expected benefits from the Department's actions in establishing its comptrollership function and other improved controls are starting to be realized. Considerable progress has been made on a number of the matters we had previously reported. However, resolution of several other matters is required before we can consider this issue resolved. These matters are:

Management Information Systems

Rehabilitation and Community Living Division

For several years we have called attention to the lack of appropriate management information systems within this Division. Last year we noted several positive steps taken by the Division and encouraged further progress. We reported that Rehabilitation and Community Living was preparing a management information systems development plan. Although a plan has been prepared, it may be incomplete because it was drawn up in advance of a complete needs assessment. The Department has since initiated a broad divisional review of its management information system needs. We also noted last year that the Division had created a separate area responsible for implementing management information systems. An information management and planning function was defined and a senior coordinator designated to coordinate and ensure that Divisional requirements were being met. However, formal functional responsibilities have not been assigned pending finalization of Divisional reorganization. Because of these and other factors, actual information system development has been slow.

As a temporary measure, the Department has initiated development of a manual client based financial tracking and forecasting system for Adult Services-Financial Assistance. This is one of the areas where an improved management information system is required. The Division has not had complete expenditure information to enable accurate forecasting, monitoring and accounting of the Adult Services appropriation. The manual system is being developed pending the possible development of an automated system. We support this approach.

Last year we noted the Division's plan to implement a number of automated management information systems. Generally, progress has not met expectations. We are concerned that managers still do not have the information they need to make appropriate decisions. We recommend that assessment of information system needs and development of information systems be accorded a high priority.

Comments of Officials

Officials indicated that development of a Management Information System has been assigned top priority in the Division. A staff position has been assigned full time to conduct a needs survey and to coordinate the development of the required information system. Further, through Divisional reorganization which is now in its final stages, additional resources are being assigned to information systems development and maintenance.

Child and Family Services Division

During the previous two years we reported that the Department had made progress in developing a Child and Family Services Information System. During the past year the Department, at the direction of Treasury Board, halted further development of the system pending a re-evaluation of the system requirements to ensure that the system to be developed would meet the multiple needs of the agencies, the Department and Treasury Board. The Department established a steering committee to review the system requirements and to make recommendations. The committee recommended that the development plan be expanded to include financial controls. Further progress awaits finalization of the revised development plan and subsequent Treasury Board approval.

A comprehensive management information system is critical to effective management of the services provided to children and their families by external agencies and regional offices. Financial control is a key aspect of effective management. We are concerned that delays in developing the system leaves the Child and Family Services Directorate without adequate management information on which to base current decisions. We recommend that the Department proceed with implementation of the system on a priority basis.

Comments of Officials

Officials indicated that a review by external consultants has been completed, and a companion study on non-case related (administrative support) costs for agencies was recently completed. A revised plan for the system will be presented to Treasury Board for consideration. The major part of this system could be developed and implemented over the next two year period given an early decision and sufficient resources.

External Agency Accountability

Rehabilitation and Community Living Division

Although the Rehabilitation and Community Living Division has developed a system to monitor receipt of external agency financial statements, the Division does not analyze the financial statements to ensure accountability requirements have been met in every case. The Division conducts extensive reviews in specific instances, but it has not developed analytical procedures to be applied to all external agency financial statements. Consequently we are concerned that the Division's grant accountability procedures are incomplete. We recommend that the Division apply analytical review procedures to all external agency financial statements.

Comments of Officials

Officials stated that the Division has not had the manpower capacity in the past to conduct reviews of all agency financial statements. To address this and other issues, Divisional headquarters was recently totally reorganized. The primary objectives of the new organization are to develop strong financial reporting and accountability, management information and an administrative infrastructure to be better able to account for public resources provided to serve the Division's clientele. As part of the reorganization process, additional staff resources were assigned to a number of areas including both program and financial monitoring of external agencies.

Child and Family Services Division

The Child and Family Services Division has responsibility to hold Child and Family Service agencies accountable for grants received and services provided. For the past two years we expressed concern that the Department did not have a proper monitoring system to ensure that agencies provide the programs and services mandated by the Child and Family Services Act. Our inspection audit reports on two Child and Family Service agencies and our special audit report on another included recommendations that the Department increase and improve its monitoring of external agencies. Last year we acknowledged the development of initiatives to address our concerns. These initiatives form part of a strategy developed by the Department to stabilize the recurring financial difficulties of child and family service agencies. The Department has made further progress since our last report:

- Quality assurance program - a pilot project was completed for one region. Services provided were audited against those called for in the Program Standards Manual. Further quality assurance program audits await analysis of the pilot project results and provision of the necessary resources.
- Workload review - a workload review committee has completed testing of a model to measure workload. The Department plans quarterly workload analyses of agencies.
- Service contracts - a service contract is in place for one agency and under development for another two. A joint agency/government committee is reviewing service contract requirements relative to agencies.
- Agency funding formula - a joint funding committee consisting of Department and agency officials has made recommendations and partial implementation of a new funding formula has been achieved.

We support the Department's initiatives. However, work is still needed to ensure compliance with legislation and accountability for funds granted. We recommend that the Department continue to work toward the completion of the above noted issues.

Comments of Officials

Officials indicated that the progress noted is part of a long-term strategy to address fiscal accountability and the situation with recurring agency deficits. They stated that the Division, with the assistance of Agency Relations Bureau, will continue to implement the various components of this strategy.

Further Audit Comments

For the last three years we have expressed concern regarding the adequacy of the Department's monitoring of external agencies to ensure funds granted are expended appropriately. The Department has recently initiated action to improve monitoring and we are encouraged with the approach taken. The Department has established a newly mandated Agency Relations Bureau. This was one of the major recommendations of the Phase 2 external review. The Bureau's role is to ensure that policies, systems and procedures are developed and maintained which will support operating divisions in ensuring accountability of external agencies. The Bureau will be expected to plan, develop and implement standards and guidelines for forecasting budgetary requirements, analyzing variances and program monitoring against pre-determined delivery standards. Special financial and management audits of external agencies, as well as the development of an agency based management practices model, are within the Bureau's planned scope of activities. The Bureau is now fully staffed and became operational in September 1990. We strongly support this development and expect that the Bureau will address the communication and accountability problems currently evident between the Department and its funded external agencies.

Agreement for Responsibility for Treaty Indian Child Welfare Costs

In prior years, we recommended the Department complete negotiations with native agencies and the Federal Department of Indian and Northern Affairs and sign the resulting tripartite agreement. The old agreement expired February 1987.

The tripartite agreement defines the principles of Treaty Indian Child Welfare and financial responsibility for the costs.

Last year we were advised that the Federal Government had established a moratorium on entering into new agreements while it was awaiting approval of a national policy on Treaty Indian Child Welfare. We have been advised that the Federal Government has now lifted its moratorium on negotiating new agreements. A technical tripartite committee composed of representatives of each First Nations Agency, the Federal Government and the Provincial Government has been formed and discussions have taken place. We are encouraged by the progress and recommend that the Department initiate negotiations towards a new agreement.

Comments of Officials

Officials stated that negotiations are underway regarding new tripartite arrangements for Indian child and family service agencies. A number of policy and financial issues must be resolved, however, and new agreements covering all existing Indian agencies will probably require at least a year to conclude. In the interim, the Federal Government continues to honour arrangements under expired agreements.

Special Audit - Winnipeg South Child and Family Services (Agency)

During the fiscal year ended March 31, 1989, in response to a request from the Minister of Finance, we completed a special audit of Winnipeg South Child and Family Services (Agency). The special audit identified three primary findings. First, communication between the Agency and Government, via the Department, needed to be significantly improved, particularly in the area of budget coordination. Second, documentation requirements needed to be improved within the Agency and between the Agency and the Department. Third, the Agency's management practices needed to be strengthened. These findings led to recommendations common to both the Department and the Agency. Several other recommendations were directed solely to the Agency. The Department has not followed up to ensure that the Agency has implemented our recommendations. The Agency may not have taken the actions necessary to deal with the concerns which prompted the audit. We recommend that the Department follow up to ensure that the Agency has implemented the recommendations contained in the special audit report.

Comments of Officials

The Department has identified this issue as a high priority. An action plan has been developed to assess and evaluate the progress made by the Agency to implement the recommendations contained in the special audit report. A progress report is expected to be finalized within the next few months.

Department of Finance

Self-supporting Debt

We previously reported that certain issues of Government debt borrowed under a Loan Act and declared to be self-supporting on the date of issue were, with the passage of time and changing circumstances, clearly no longer self-supporting. This resulted because certain Crown agencies for which the Government had borrowed the funds cannot support the debt. In these cases, the debt had become, or evidence clearly indicates that it eventually would become a charge against the Consolidated Fund. Our concern was that information about self-supporting debt, reported in the Public Accounts and prospectuses, could be misinterpreted because some specific debt issues were no longer self-supporting but had not been reclassified.

A new Loan Act was past during the last session of the Legislature. The new loan Act separates the borrowing authority from the specific purpose of the expenditure. As a result, funds borrowed will no longer indicate that they are borrowed for specific Crown agencies, except for Manitoba Hydro. The funds borrowed under the authority of the Loan Act will still be declared to be for self-supporting purposes. However, the borrowing material will not reflect that the borrowing is for specific agencies. When agencies require funding, advances will be made. However, the advance will not be related to any specific debt issue.

Department of Finance officials have taken and are planning to take measures to resolve our concern.

Department of Finance officials are monitoring the loans and advances and long-term investments. They are doing this to determine that the total loans and advances, etc. to Crown agencies, less the valuation allowances, exceed the outstanding self-supporting debt, less the sinking funds. They will also be placing increased emphasis on the valuation allowances to ensure that they are appropriate in the circumstances. These measures will ensure that the total self-supporting debt outstanding is self-supporting. If the self-supporting debt, less the sinking funds, exceeds the total loans and advances, etc., less the valuation allowances, a transfer will be made from self-supporting debt to the general government program debt in the amount that the self-supporting debt exceeds the loans and advances, etc.

The Government actions taken and those proposed resolve our concerns regarding the classification of self-supporting debt. We expect that the Government will be closely monitoring the loans, advances and long-term investments to determine that appropriate valuation allowances are established and when loans and advances, etc. should be written-off.

Department of Justice

Court Services Division - Queen's Bench - Winnipeg - Suitor's Trust

We previously reported that the Department was not complying with subsection 8(1) of The Suitor's Money Act. This subsection required the Department to send suitors two and five year notices advising them of monies paid into court on their behalf. The Legislative Assembly passed an amendment to subsection 8(1) of the Act in The Statute Law Amendment Act, 1990, which received Royal Assent March 15, 1990. The amendment requires publishing five year notices in one issue of The Manitoba Gazette, showing the action and amount of monies paid in. The Department published these notices in the issue of The Manitoba Gazette dated June 16, 1990. Department officials advise that publication of these notices will continue annually. The amendment to the Act and the actions taken by the Department resolves this compliance issue.

Department of Northern Affairs

For the last three years, we have reported that the Department's management practices and processes required improvement. We specifically had concerns regarding the Department's lack of appropriate planning, reporting, comptrollership and internal audit. During the last two years the Deputy Minister and senior staff have taken steps to improve the management practices in the Department.

The Department established a Management Services Branch which has made considerable progress towards implementing an improved planning process and has developed a management reporting model. We consider the actions taken and those planned with respect to planning and reporting to be appropriate. As a result, we do not consider it necessary to continue to report on the planning and reporting matters.

The matters of comptrollership and internal audit still require attention. Regarding comptrollership, the Department still needs to improve its grant accountability processes and its performance appraisal system. The matter of the lack of an internal audit function is of specific concern because the Department is not complying with Government's internal audit policy approved in 1982.

We recommend that the Department improve its comptrollership practices. We further recommend that the Department comply with Government policy and establish an internal audit function.

Comments of Officials

Department officials advised that these matters will be given a high priority during the year ending March 31, 1991.

The Northern Affairs Fund

The Department of Northern Affairs administers The Northern Affairs Fund. We have previously reported that the Department needs to improve its controls over the operations of the Fund. Specifically, we reported that improvements were required in the procedures for the collection of tax arrears, internal control over the tax roll, monitoring of changes in ownership of property and auditing of self-administered communities.

During the year the Department took appropriate action and improved its collection procedures for tax arrears, implemented an appropriate reconciliation process to improve its internal control over the tax roll and improved its monitoring of changes in ownership of property. The Department's actions are those that can reasonably be expected to be taken and consequently, we consider these matters resolved.

However, the auditing of self-administered communities is still not being completed on a timely basis. As at May 5, 1990, one 1986/87 audit, five 1987/88 audits and thirty-five 1988/89 audits have not been completed. As a result, the accountability for the funds provided to these communities is not on a current basis. The lack of timely audits may also result in significant problems being undetected for an inappropriate length of time.

We recommend that Department officials take action to bring the audits of self-administered communities into a current position and conduct timely audits thereafter.

Comments of Officials

Department officials stated that, due to the emergency fire situation in 1989 and other priorities, audit staff had to be reassigned. This resulted in the delays in the audits. Officials stated that efforts will be taken to ensure that by March 31, 1991 all audits will be in a current position.

Department of Rural Development

Last year we reported that the Department was not complying with section 34(1) of The Municipal Assessment Act. This section of the Act requires the Department to assess all property within municipalities at least once every five years. The Department had been assessing property only once every eight to nine years. We recommended the Department work to achieve compliance with legislation.

In 1990, a general reassessment was completed .

A new Municipal Assessment Act was passed by the Legislative Assembly in January 1990. The new Act requires a general assessment of all assessable property in the Province every three years following 1990. The Department is taking action to ensure compliance with the new Act.

Various Departments - Overexpenditure

The Government discloses information about the overexpenditure of legislative authority in note 15B2ii to the Operating Fund financial statements.

For the fiscal year ended March 31, 1990, legislative spending authority was exceeded by $1.2 million (1989 - $0.3 million). The 1990 overexpenditure related to 10 appropriations affecting 7 departments (1989 - 4 appropriations affecting 3 departments). The 1990 overexpenditures have been charged to 1991 operations and paid as late accounts.

In addition to the above noted instances, 3 other appropriations were overexpended because of adjustments made to the valuation allowance for Crown corporation deficits to comply with the Government's accounting policies.

The overexpenditures have increased from the prior year. While we do not consider the amount of overexpenditure to be material, we recommend that the Government take all action practicable to ensure the overexpenditure of legislative authority does not occur.

We report this matter because it reflects non-compliance with legislative authority.

PUBLIC ACCOUNTS

General Comments

As at the time of release of this report, the Government has not completed and released all of the Public Accounts. Volumes 1 and 2, being the Consolidated Fund financial statements and supporting information, have been released. However, Volume 3, being the Government's Summary financial statements, has not been completed and released.

The Summary financial statements are intended to present an overview of the full nature and extent of the financial affairs and resources for which the Government is responsible. They provide information on the economic impact of the Government's activities beyond that reflected in the Operating Fund of the Consolidated Fund. The financial position and operating results of special funds and Government agencies are combined with the Operating Fund to report on the total government reporting entity. The main reason Volume 3 has not been completed is because it is still in a developmental stage. The Government is working to increase the number of agencies whose operations are combined with the Operating Fund. Full reporting on the total government reporting entity will not be available until March 31, 1991.

We consider Volume 3 to be as important as Volumes 1 and 2. Therefore, the majority of our comments on the Public Accounts will be included in a supplementary report to the Legislative Assembly after Volume 3 has been completed.

To assist a reader to understand the Consolidated Fund financial statements included in Volume 1 of the Public Accounts, we include in this section of our report comments on our reservations in our attest audit opinion on the Consolidated Fund financial statements, comments on the Consolidated Fund's accounting policies, comments regarding the classification of trust funds and our concerns with the timing of the completion of the Public Accounts.

Consolidated Fund Financial Statements - Reservations In Our Attest Audit Opinion

Exhibit 8 is a reproduction of our attest audit opinion on the Consolidated Fund financial statements of the Government of the Province of Manitoba. The financial statements are presented, except for reservation 1, in accordance with the accounting policies stated in notes 1 to the Operating Fund and Trust Fund financial statements. We also report two additional reservations regarding the Government's accounting treatment:

Reservation 1 concerns the recognition of expenditures incurred as a cost shared claim against Canada, and consequently as revenue for the year ended March 31, 1990, prior to reaching an agreement with Canada to bring this about. It comments on the Government recording in the Operating Fund financial statements an emergency disaster amount receivable from the Government of Canada of $18.7 million. The receivable is for a pending claim for fire suppression costs incurred by Manitoba during the 1990 fiscal year. Note 1B2 to the Operating Fund financial statements indicates that revenues are recorded on an accrual basis. However, as at March 31, 1990, the Governments of the Province of Manitoba and Canada had not finalized the cost sharing arrangements for these costs, the Province had not submitted a formal claim to Canada and Canada had not acknowledged this liability. As a result, realization of this amount receivable is contingent upon future negotiations. As at March 31, 1990, $18.7 million cannot be verified as an amount receivable. The Public Sector Accounting and Auditing Committee of the Canadian Institute of Chartered Accountants (PSAAC) has researched the issue of accounting for government transfers. PSAAC recommends that shared cost revenues be recognized by the recipient government for the portion of eligible expenditures incurred during the year that the transferring government has agreed to share pursuant to a shared cost agreement. As at March 31, 1990, Canada, the transferring Government, had not agreed to share in these fire suppression costs and an agreement had not been finalized. Had the Government not recorded the $18.7 million as an amount receivable in the Operating Fund financial statements, revenue would be decreased and the annual deficit would be increased by $18.7 million for the year ended March 31, 1990. Also, financial assets would be decreased and the accumulated deficit would be increased by $18.7 million as at March 31, 1990.

Reservation 2 concerns the exclusion of pension liabilities and associated pension costs from the Government's financial statements for pension entitlements earned by Government employees, teachers and Members of the Legislative Assembly. It comments that the accounting treatment is in accordance with the accounting policy stated in note 1B2d to the Operating Fund financial statements.

This is the twelfth year we have reported concerns with the Government's increasing unrecorded pension liabilities and the unrecorded cost of the annual increase in pension liabilities for pension entitlements earned by civil servants, teachers, Members of the Legislative Assembly and staff of certain Crown agencies.

PSAAC has researched the issue of accounting for pensions and reporting practices in Canada. PSAAC has recently issued recommendations for accounting for this aspect of government operations. Public Sector Accounting Statement 5 - Accounting for Employee Pension Obligations in Government Financial Statements recommends that governments record in their financial statements liabilities and costs for pension entitlements earned by their employees.

Pension entitlements earned by Government employees are contractual obligations of the Government. During their years of service to the Government, employees earn both their salary and post retirement pension benefits. Empoyee salaries are costs that the Government incurs and records month by month as the salaries are earned. Post retirement pension entitlements also are earned during the years of service and are liabilities of the Government that the Government should record as the entitlements are earned. To exclude from the Government's operating accounts the unfunded pension liabilities and the costs associated with the annual increase in the pension liabilities for employees' post retirement pension entitlements earned over the years of employment understates the Government's operating costs and accumulated liabilities.

Note 13 to the Operating Fund financial statements discloses information on the Government's estimated unfunded pension liabilities. The unfunded pension liabilities are estimated to be $1,157 million as at March 31, 1990. While note disclosure provides information that is helpful to understanding aspects of Government operations, it is not the same as recording the pension liabilities and the costs associated with the annual increase in pension liabilities in the financial statements. Had the Government recorded the unfunded pension liabilities and the costs associated with the annual increase in pension liabilities in the Operating Fund financial statements, expenditures and the annual operating deficit would be increased by an estimated $131 million for the year ended March 31, 1990. Also, liabilities and the total excess of liabilities over financial assets and similar items (accumulated deficit) would be increased by an estimated $1,157 million as at March 31, 1990.

Reservation 3 concerns transactions between the Operating Fund of the Consolidated Fund and the Fiscal Stabilization Fund. It deals with concerns regarding the effects of transactions between the two funds for the years ended March 31, 1989 and March 31, 1990.

For the year ended March 31, 1989, we reported our concern with the Government not combining the Fiscal Stabilization Fund with the Operating Fund for financial reporting purposes. We reported that the actions taken by the Government to transfer $200 million of Operating Fund revenue to the Fiscal Stabilization Fund was in accordance with The Fiscal Stabilization Fund Act. However, in our view, the transfer was not in accordance with the spirit of the Operating Fund's accounting policy stated in note 1A. The accounting policy states that the financial statements prepared for the Operating Fund report amounts recorded as Government revenue, expenditure on Government programs, the lending and investing of Government funds and the borrowing and repayment of debt.

While we support the establishment of a reserve such as the Fiscal Stabilization Fund, any transfers to the Fund should be through an allocation of surplus (deficit). Funds should not be transferred from revenue in any way which impacts on the operating results of the Operating Fund.

The purpose of the Fiscal Stabilization Fund is stabilize the fiscal position of the Government. When the Operating Fund requires additional moneys for Government programs that benefit Manitobans, the Government will return funds from the Fiscal Stabilization Fund to the Operating Fund. The difference between the Operating Fund and the Fiscal Stabilization Fund is the timing of when the funds will be used for operating purposes to fund Government programs. In our view, segregation of funds in the Fiscal Stabilization Fund apart from the Operating Fund is not appropriate because it results in the incomplete presentation of the Government's Operating Fund financial statements.

The transfer, in the 1989 fiscal year, of $200 million in Operating Fund revenues to the Fiscal Stabilization Fund continues to result in an overstatement by $200 million of the Government's Operating Fund liabilities and accumulated deficit as at March 31, 1990.

In 1990, the above-noted situation was compounded. The Fiscal Stabilization Fund recorded $25 million of interest revenue earned on the $200 million of Operating Fund revenues transferred in 1989. This interest, as with the $200 million transferred last year, should be combined with the Operating Fund for reporting purposes.

Had the Government combined this interest with the Operating Fund, Operating Fund expenditure and the annual deficit would be decreased by $25 million for the year ended March 31, 1990. Also liabilities and the accumulated deficit would be decreased by $25 million as at March 31, 1990.

The combined effect of the three reservations on the Government's 1990 operations is a decrease in revenue of $18.7 million, an increase in expenditures of $106 million and an increase in the annual deficit of $124.7 million for the year ended March 31, 1990. Also, there would be a decrease in the financial assets of $18.7 million, an increase in liabilities of $932 million and an increase in the accumulated deficit of $950.7 million. The annual deficit for the year ended March 31, 1990 would be $266.7 million as compared to the reported annual deficit of $142 million. The accumulated deficit as at March 31, 1990 would be $5,692.7 million as compared to the reported accumulated deficit of $4,742 million.

We recommend that the Government:

- finalize formal arrangements with the Federal Government on cost sharing of the fire suppression costs incurred in the 1990 fiscal year;
- take action to record its pension liabilities and the costs associated with the annual increase in the pension liabilities and
- combine the Fiscal Stabilization Fund with the Operating Fund of the Consolidated Fund for financial reporting purposes.

It is important to note that the Government's Summary financial statements combine the Fiscal Stabilization Fund, together with certain other Crown entities, with the Operating Fund. However, this does not provide for the expected level of information in the Operating Fund financial statements.

In addition to the three reservations in our attest audit opinion, we have two other concerns with the Government's stated accounting policies. These concerns relate to the non recording of fixed assets and the non recording of other liabilities for benefits earned by employees in the Government's accounts.

These two concerns are set out more fully in the following comments on Accounting Policies.

Comments of Officials

Accrual of Shared Cost Claim Against Canada re Fire Suppression Costs

Officials advised that the accrual of $18.7 million was based on announced support by the Government of Canada. The accrual of shared cost recoverables, when such expenditures have been incurred, is the Government's normal accounting practice. Although the Manitoba Government has not been able to finalize this recoverable through an agreement, it is the Government's intention to pursue collection of these monies.

Further Audit Comment

PSAAC recommends that recording of shared cost revenue not take place until agreement has been reached.

Pension Liabilities and Associated Pension Costs

Officials stated that the Minister of Finance has reiterated his concern regarding the comparability of financial statements between Governments in Canada and the need to resolve this issue on some common basis. At this time only the Government of Canada is in compliance with the accounting and reporting practices recommended by PSAAC. The Provincial Governments continue to follow a variety of approaches, none of which satisfy PSAAC requirements. In Ontario and Quebec, the Provincial Governments have decided to record their unfunded liabilities over a 40 and 50 year period respectively. The development of yet another unique solution by the Manitoba Government will only serve to further compromise the consistency that PSAAC is attempting to achieve through the development of standards.

Fiscal Stabilization Fund

Officials stated that the Fiscal Stabilization Fund was established as an entity distinct and separate from the Consolidated Fund for the purpose of holding exceptional revenues of the Government in reserve until they are required. The Fund is intended to act as a fiscal shock absorber, returning revenue to the Consolidated Fund in fiscal years when Government revenues are constrained or there are exceptional expenditure requirements.

Accounting Policies

We previously reported that the Government's accounting policies need to be changed to bring them in compliance with recommendations of the Canadian Institute of Chartered Accountant's Public Sector Accounting and Auditing Committee (PSAAC). The following are the significant areas where policies need to be changed.

Employee Pensions

The issue of employee pensions is a significant matter that governments across Canada have to deal with. The growing pension liabilities and annual pension costs are significant.

This is the twelfth year we have reported concerns with the Government's increasing unrecorded pension liabilities and the unrecorded cost of the annual increase in pension liabilities for pension entitlements earned by civil servants, teachers, Members of the Legislative Assembly and staff of certain Crown agencies.

The Government discloses information about the civil service and teachers pension liabilities in a note to the financial statement. However, note disclosure, while helpful to understand the magnitude of the liability, is not sufficient. PSAAC recommends the recording of the pension liabilities and associated costs.

For the year ended March 31, 1990, the Government's accumulated pension liabilities amounted to approximately $1,132 million for civil servants and teachers. The costs associated with the annual increase in the amount of the pension liabilities for the year ended March 31, 1990 is approximately $129 million.

As indicated in note 13 to the Operating Fund financial statements, an actuarial valuation was last undertaken for the pension plan of Members of the Legislative Assembly as at December 31, 1986. The actuarial report estimated the unfunded liability to be $19.5 million. An actuary has recently been contracted to undertake a valuation of the plan as at December 31, 1989. The results of this valuation are not yet available. However, Officials of the Civil Service Superannuation Fund have estimated that the unfunded liability may have risen to $25 million. The costs associated with the annual increase in the Members' pension liability is estimated to be $2 million.

The pension liabilities and costs associated with the annual increase in the pension liabilities are liabilities and expenditures that should be recorded under the accrual method of accounting. The Government's current method of handling these benefits causes interperiod inequity. It also results in the Government's liabilities and accumulated deficit being understated by the amount of the accumulated pension liabilities. The Government's expenditures and annual deficit are understated by the amount of the pension costs associated with the annual increase in the pension liabilities.

Progress is being made in other jurisdictions. The Government of Quebec has made a significant start. It records 58% of its actuarial liability and is amortizing the remaining unrecorded liability for its pension plans over a period of fifty years. The Government of Ontario is also working to fund their unfunded pension liabilities over a forty year period. The Government of Canada now fully records its pension liability. Other Governments in Canada do not record their unfunded pension liabilities. However, several other governments have taken action to limit the extent of the unrecorded liabilities and associated pension costs. The Governments of Newfoundland and Labrador, Nova Scotia, Prince Edward Island, New Brunswick, Quebec, Ontario and Canada are funding and recording current service contributions. While this does not cap the liability, it has the effect of limiting the unrecorded pension liability to the unfunded liability for past service. Also, the Government of New Brunswick and the Government of Newfoundland and Labrador have taken further action to resolve this problem. They have established committees to review the issue of pensions and have made contributions to reduce the unfunded liability.

Because of the Manitoba Government's failure to record these liabilities and costs, we have reported a reservation in our attest audit opinion on the Government's financial statements.

We again recommend that the Government work towards compliance with PSAAC recommendations and record the pension liabilities and associated pension costs.

The larger Crown agencies record employee pension liabilities. However, the majority of others do not. The combined unrecorded pension liabilities of Crown agencies and the Government results in an excess of $1.5 billion in unrecorded pension liabilities in the Manitoba public sector. We have reported reservations in our attest audit opinions of those Crown agencies we audit that do not record the pension liability and associated pension costs.

We again recommend that the Government instruct all Crown agencies to adopt appropriate accounting policies for recording pension liabilities and associated pension costs.

Comment of Officials

Officials stated that the Minister of Finance has reiterated his concern regarding the comparability of financial statements between Governments in Canada and the need to resolve this issue on some common basis. At this time only the Government of Canada is in compliance with the accounting and reporting practices recommended by PSAAC. The Provincial Governments continue to follow a variety of approaches, none of which satisfy PSAAC requirements. In Ontario and Quebec, the Provincial Governments have decided to record their unfunded liabilities over a 40 and 50 year period respectively. The development of yet another unique solution by the Manitoba Government will only serve to further compromise the consistency that PSAAC is attempting to achieve through the development of standards.

Those Crown agencies that are dependent on the Government for funding will be required to change their accounting policies for pensions at the same time as the Government's policies are changed.

Other Employee Benefit Liabilities

We previously reported that the Government does not disclose or record its liabilities for other employee benefits such as severance pay, vacation entitlements, sick leave or long-term disability. The Government also does not record its liability for its portion of the Workers Compensation Board's unfunded liabilities related to the Government and its funded agencies. These are liabilities that should be recorded under the accrual method of accounting and in accordance with PSAAC recommendations.

An estimate of these liabilities is not available. However, if the Government had recorded these liabilities in its Operating Fund financial statements, liabilities and the accumulated deficit would be substantially increased. Also, expenditure and the annual deficit would be increased.

We recommend that the Government take steps to amend its accounting policies to record these liabilities.

Comment of Officials

Officials advised that they intend to resolve the treatment of other employee benefits concurrent with the determination of a course of action for pension benefits, which is the largest benefit that employees presently receive.

Fixed Assets

We continue to report that the Government's current method of accounting for fixed assets needs to be enhanced. Under the Government's current accounting policies, assets purchased to provide future services to Manitobans are recorded as expenditures when acquired. The portions of the assets available to provide future services to Manitobans are not reflected in the Government's financial statements as assets. This results in interperiod inequity and a fragmentation of operating results because it fails to recognize that many capital related expenditures benefit more than one fiscal period and are available for the future.

The Government discloses in the Public Accounts the amount of gross capital expenditures by department each year. However, it does not disclose its acquired physical assets on hand and available for use at the end of the accounting period.

We note that PSAAC has issued a research study on the issue of recording of fixed assets. However, specific recommendations have not been developed on this subject.

An estimate of the Government's fixed assets is not available. However, if the Government recorded fixed assets in the Operating Fund financial statements, to the extent fixed assets are available to provide future services to Manitobans, assets could be substantially increased and expenditure, the annual deficit and the accumulated deficit could be substantially decreased.

We recommend that the Government take steps to develop information for recognizing fixed assets purchased and available to provide future services to Manitobans.

Comment of Officials

Officials stated that PSAAC has still not provided any guidance to Governments in the recording of fixed assets. While we think it may be worthwhile for the Government to develop information on its fixed assets in order to be ready for a possible recommendation that these be recorded in the financial statements, staff resources have not been available for this type of research project.

Government Reporting Entity

The Government has adopted PSAAC's recommendation on the government reporting entity. A study has been completed to determine which Government agencies and special funds should be combined with the Government Operating Fund to comprise the total government reporting entity. The study has followed criteria established by PSAAC to determine those agencies whose operations should be combined with the Operating Fund on the full consolidation basis and those which should be combined on the modified equity basis.

Volume 3 of the Public Accounts contains the Government's Summary financial statements which present the information on the government reporting entity. The Government is still in the process of developing its Summary financial statements. Development is intended to be completed, with full reporting on the total government reporting entity, by March 31, 1991.

Last year we included a reservation in our attest audit opinion on the Government's Summary financial statements. The reservation resulted because the Government had only partially implemented its reporting entity accounting policy and had only included the operations of some of its agencies into the financial statements. While more agencies will be added to the Summary financial statements for the 1990 fiscal year, the reporting entity accounting policy will still not be fully implemented. Depending on the materiality of the operations left out of the financial statements, we may again have to include a reservation in our attest audit opinion.

We are supportive of the positive action the Government has taken in developing these important financial statements. The completion of the Summary financial statements will improve the Government's accountability by reporting the overall results of Government operations.

We recommend that the Government continue to work to complete the development of its Summary financial statements by March 31, 1991.

Comments of Officials

Officials advised that work is continuing on the development of the Summary financial statements. In 1989-90, these statements will include all the Crown corporations and agencies that have a material impact on the results shown for the Government reporting entity.

Classification of Trust Funds

We have previously reported that the Government classifies certain operating type funds as trust funds. This is being done to be in accordance with legislation establishing these funds or for banking or investment purposes. We reported that certain of these funds do not meet the criteria of a trust fund because a fiduciary trust relationship does not exist. These funds differ from trust funds such as those held by the Public Trustee's Office. The Public Trustee's Office holds funds in trust for specific third parties under a trust relationship. The operating type funds that the Government classifies as trust funds are not being held for third parties under a trust relationship. Unlike the trust funds held by the Public Trustee's Office, the Government may use these other funds to deliver government programs and/or the Government may have discretion as to how and when the funds are to be used.

Last year we reported that the more significant funds that do not meet the criteria of a trust fund were: the lottery trust funds, the Mining Community Reserve Fund, the Fires

Prevention Fund and the Victims Assistance Fund.

We recommended that, because these funds do not meet the criteria of a trust fund, the revenues, expenditures and balances of these funds should be reported in the Operating Fund Section of the Consolidated Fund rather than in the Trust Fund Section of the Consolidated Fund. We further recommended that the Government consider amending the legislation establishing these funds as trust funds.

The Government has taken significant action on the lottery trust funds. For the year ended March 31, 1991, all lottery funded programs are included in the Operating Fund and reported in the departmental estimates. An equivalent amount of lottery proceeds will be transferred from the Trust Fund to Operating Fund revenue to cover the expenditures through the departmental appropriations. We are encouraged by the Government's actions regarding the lottery funds. The only concern we have is that the lottery funds remaining at the year end are to be retained in the Trust Fund Section and not combined with the Operating Fund.

We recommend that the balances remaining in the lottery trust funds be combined with the Operating Fund for reporting purposes. To assist with this, we recommend the Government consider amending the legislation establishing the lottery funds as trust funds.

The Government has not taken any action on the other funds and our concerns remain.

We recommend that the Government review all funds in the Trust Fund Section of the Consolidated Fund. We recommend that those funds that do not meet the criteria of a trust fund be combined with the Operating Fund for reporting purposes. To assist with this, we recommend that the Government consider amending any legislation that establishes these funds as trust funds.

We recognize that the Government's Summary financial statements does combine the more significant of these funds with the Operating Fund. However, this does not provide the information expected at the Operating Fund level.

Comments of Officials

Officials stated that the recommended review will be undertaken.

Timely Completion of Public Accounts

We have reported for several years that the Government does not complete and issue its Public Accounts on a timely basis. We acknowledge the effort made by officials to attempt to complete the Public Accounts on a more timely basis. However, there continues to be difficulties in completing the Public Accounts on a timely basis. Volumes 1 and 2 of the March 31, 1989 Public Accounts were not released until January 1990, while Volume 3 was not released until May 1990.

The Government did not release Volumes 1 and 2 of its Public Accounts for the fiscal ended March 31, 1990 until December 1990. Volume 3 is not expected to be released before January 1991. These releases will reflect an improvement over the prior year, but they still can't be considered to be timely.

The usefulness of the Government's operating information and annual results decreases the longer the Government takes to release the information.

We continue to recommend that the Government place a higher priority on the completion and release of its Public Accounts. We recommend that the Government continue to work to complete the Public Accounts on as early a time frame as practicable, with a target date of September 30.

Comments of Officials

Officials stated work is continuing to improve the timeliness of the Public Accounts but is dependent in many ways on the development/acquisition of an integrated financial information system.

ORGANIZATION AND ACTIVITIES OF THE PROVINCIAL AUDITOR'S OFFICE

Organization and Activities of the Provincial Auditor's Office

Organization

Our staff complement as at March 31, 1990 was 58 positions. This was unchanged from the preceding year. The 58 positions consisted of 5 executives (forming the management committee); 16 audit managers; 33 auditors and technical staff and 4 administrative support staff. Term staff were used to assist the Office in meeting its objectives in peak workload periods.

Included in the 58 positions were 40 professional staff. These professional staff included 19 Chartered Accountants, 12 Certified Management Accountants and 9 Certified General Accountants. Our professional staff maintain memberships in professional accounting associations. This enables staff to keep abreast of new developments and technology in our profession. Our staff personally pay for these memberships.

We continue to contract with an accounting firm to provide the services of a partner who is an internationally recognized computer auditing specialist. He assists us in maintaining high standards of professional practice in this fast changing and increasingly complex area of auditing. He also assists in the high level training of and support to our staff in computer systems auditing and technology.

The Office's organizational structure is set out in the Organizational Chart, Exhibit 3. The organizational structure has not changed from the preceding year.

Activities:

General

We review the way we meet our mandate on an ongoing basis to ensure our responsibilities are being discharged effectively and efficiently. Each year the Office's Executive conducts in-depth planning sessions. During these planning sessions we review and update our strategic plan. This includes carrying out a comprehensive needs assessment, establishing measurable objectives and identifying key results which will measure the achievement of the objectives. From the strategic plan, we establish our required resources and allocate the audit activities to the various audit teams. During the planning sessions, we also review and establish longer-term plans. We prepare our yearly operating budget based upon our strategic plans. We monitor, report and evaluate our operations based on our strategic plan.

Several changes resulted from the planning process. The most significant was that a computer analyst was hired to fill one of our support staff vacancies. The duties which had previously been performed by an audit manager were reallocated to the computer analyst, thereby better utilizing both individuals' specialized skills. The computer analyst works closely with both audit staff and administrative support staff in the use of microcomputers and is working to increase our audit staff's ability to use micro and mainframe computer technology to assist in the audit.

Government Audit

We audit the operations of the Government of the Province of Manitoba. One of our key responsibilities in this work is the attest audit of the Government's financial statements included in the Public Accounts. We audit aspects of operations of each of the departments of Government and the Legislative Assembly Offices annually. For the 1990 fiscal year, this included 23 departments and the Legislative Assembly Offices. This is unchanged from the preceding fiscal year. As part of our Government audit, we audit 5 departmental funds as listed in Exhibit 5. This is the same number as last year.

Our Government audit work includes the pre-audit of government expenditures. For the fiscal year ended March 31, 1990, we examined 453,547 requests for payment, inter-department transfers and journal vouchers (1989 - 468,505). We identified 3,750 errors in the requests for payment which had to be corrected by departments before processing (1989 - 6,990). We did not have to refuse any requests for payments during the past year.

As part of our audit work on the Department of Finance, we review prospectus material. Input from our Office regarding the review of financial information in prospectus documents may be required when the Government raises funds through borrowings. To raise funds in 1990, the Province went to the market for 6 new debt issues, plus Canada Pension Plan debentures, Treasury Bills and a loan from the Government of Canada. In addition to this, the Province made several calls and swaps. We were involved in the U.S. Shelf Prospectus filing and 1 of 6 debt issues (1989 - U.S. Shelf Prospectus filing and 4 of 7 debt issues). The nature of our involvement varies, depending on the jurisdiction in which the funds are being raised. Our involvement relates to reviewing prepared material, verifying reported operating results and other financial data and commenting on the appropriateness of the financial information included in the prospectus documents. Funds raised through borrowings from the Canada Pension Plan, issues of Treasury Bills and loans from the Government of Canada do not require input from our Office, as prospectuses are not required.

Agency Audits

Attest audits

We performed attest audits for 52 Crown agencies this year as compared to 57 agencies last year. The financial statements of these agencies have either been reported on, or are in the process of being reported on, by our Office. The 52 agencies are listed in Exhibit 4 of this report.

Two Crown agencies have ceased operations and as a result did not require an audit during the year. These agencies are the Superannuation Resources Investment Corporation of Manitoba Inc. and the Teachers' Retirement Resources Investment Corporation of Manitoba Inc.

Two other Crown agencies appointed private-sector auditors during the year and as a result do not appear on Exhibit 4. These agencies are the Communities Economic Development Fund and the Manitoba Development Corporation. These agencies are now listed on Exhibit 6 as agencies for which we do an overview audit.

The Manitoba Hospital Capital Financing Authority previously listed on Exhibit 4 is now more appropriately included in Exhibit 5.

Overview audits

We did overview audits of the 15 Government agencies listed in Exhibit 6. The attest audits of these agencies were completed by private-sector auditors. Last year we carried out 13 overview audits. The increase is as a result of the newly created Crown Corporation Council in addition to the Communities Economic Development Fund and the Manitoba Development Corporation. We no longer include the Deer Lodge Centre Inc. in our list of overview audits, it is now included in the category of organizations for which we may conduct inspection audits.

Project Audits

Project audits may be broader scope or compliance audits that are initiated by our Office. The following project audits are those that we completed during the year.

- the process for recording and reporting non-tendered contracts;
- overtime across government;
- review of specific expenditures, including: senior management expense claims, hospitality expenditures, out-of-province travel expenditures and relocation expenditures;
- the Insurance Corporation Tax revenue operations;
- accounts receivable within the Department of Education and Training;
- the process for the integration of northern training into Keewatin Community College;
- the Department of Health's regional office operations and
- the Department of Highway's construction program.

Special Audits

During the fiscal year ended March 31, 1990 the Office undertook two special audits. The special audits related to the North Portage Development Corporation and a review of the operations of Legislative Assembly Offices. Both special audits have been completed and reported on.

Inspection Audits

We started two inspection audits for the fiscal year ended March 31, 1990. We audited the Manitoba Cancer Treatment and Research Foundation and the Society for Manitobans With Disabilities. The audit of the Manitoba Cancer Treatment and Research Foundation has been completed and reported on. The Society's audit is still in process. The Government is the principal funder of both these agencies.

Staff Training

We have continued to base our staff training and development program on a combination of on-the-job training, formal training courses and participation in conferences sponsored by various professional organizations.

Our Office introduced our newly updated Office manual with intensive in-house seminars for all staff members. In-house seminars were also held during the year in the areas of computer auditing and microcomputer technology.

In addition to the in-house courses, we continued to participate in outside conferences and seminars. We attended certain courses sponsored by the Civil Service Commission. We also provided staff members with financial assistance for degree and certificate programs. We were also involved with outside organizations such as the EDP Auditors' Association, the Internal Auditors' Association and the Institute of Public Administration. One of our Directors met with his counterparts from other provinces at the Legislative Auditors' Practices Committee. This group facilitates inter-provincial communication on legislative audit practices and related training.

Microcomputer Security

Recently, several of our Office's microcomputers and most of the floppy diskettes in use were affected by a nuisance variety of computer virus. It was detected only when one machine malfunctioned and displayed a virus generated message on the computer screen. We have been unable to ascertain how the virus was introduced to our environment. We recognize that the extensive sharing of equipment and certain reports that takes place in our Office allowed the virus to proliferate.

Removal of the virus necessitated the review and assessment of various software packages designed to delete viruses from the computer disk drives and floppy diskettes. For resolution of our current problem and ongoing protection from future viruses, we acquired and installed software designed to check each computer for known viruses. Our intention is to reduce the possibility of another virus infection, especially one of the more destructive types in existence which can cause loss of data and affect the operation of systems. We notified officials in client offices about our experiences with the virus, to enable them to look for and resolve the problem in their equipment.

Reporting on Effectiveness

During the year, the Manitoba government, with financial assistance from the Canadian Comprehensive Auditing Foundation (CCAF) undertook a pilot project to test the methodology for reviewing and reporting on effectiveness in government. Two government programs were selected for testing the methodology. The pilot project team included individuals from the program areas being reviewed, members of central agencies, other members from across Government and two audit managers from our Office. Advisory services were provided by a partner from a national consulting firm. The objectives of the review were to assess the methodology and, in the process, to assess the organizational effectiveness of the two programs in relation to the twelve attributes of effectiveness developed by the CCAF. The goal was to determine how the methodology could best be implemented and to assess the usefulness and applicability of the reporting framework from Manitoba's perspective.

The project is still in progress, with results expected before the end of 1990. We will report the results of this initiative in our next annual report.

Professional Practices

The professional practices section of the Office is responsible for:

- the development and maintenance of auditing policies, standards and procedures;
- post-audit quality control reviews;
- pre-release concurring reviews in support of the Provincial Auditor in special or high risk situations and
- providing advice to the Office on the interpretation and appropriateness of accounting policies with respect to financial statement disclosure.

Standards and procedures are assessed periodically and resulting changes communicated to all staff through our in-house training program. During the year we completed a major update and reorganization of our audit policy manual, and supporting audit forms, to align our practices with attest auditing strategies being adopted in the private sector. In order to increase the effectiveness of our audit efforts, we have adopted a risk-driven approach to audit planning.

Post-audit quality control reviews are performed to ensure that the work of the Office meets the professional standards of the Office as well as the Canadian Institute of Chartered Accountants. The results of prior year file reviews were used directly in developing our revised audit policies and our recent training seminars.

Professional practices also provides consultive advice to audit staff on audit assignments and provides support to the Provincial Auditor in reviewing specific audit issues, in identifying new approaches to audit methodologies and in maintaining an overall knowledge of current developments in the public and private auditing sectors.

Quality control review activities will continue to be the focal point for the Office to maintain its high standards of audit effectiveness and efficiency.

Meeting of Legislative Auditors

The Canadian Conference of Legislative Auditors is an informal association of the legislative auditors of Canada and the Provinces. These meetings serve as an excellent forum for the exchange of information on matters of mutual interest and the discussion of technical information important to the work of our Offices. The conferences are held in conjunction with the Canadian Council of Public Accounts Committees and include joint sessions where legislative auditors and Public Accounts Committee members explore issues of mutual interest.

Participation on Professional Committees

Members of the Office participate on various committees of the Canadian Institute of Chartered Accountants (CICA) and the Institute of Chartered Accountants of Manitoba (ICAM). During the past year, the Provincial Auditor was a member of the Public Sector Accounting and Auditing Committee (PSAAC) of the CICA. The Assistant Provincial Auditor and Director of Professional Practices participated as associates of PSAAC.

The Director of Professional Practices was a member of the Office Practices Advisory Committee of ICAM and the Director of Training and Technology was a member of the Professional Development Committee of ICAM during the year. One of our audit managers was President of the Internal Auditors' Association during the fiscal year ended March 31, 1990.

Through participation on these committees, staff of the Office keep abreast of developments in public sector auditing and accounting, while making a contribution to these developments.

Revenue and Expenditure

The revenue and expenditure of the Office for the year ended March 31, 1990 as compared with the estimate, and with the actual revenue and expenditure of the preceding year, as shown below (in thousands of dollars):

Comparison of Actual Revenue and Expenditure to Estimate - March 31, 1990

	Actual	Estimate	Variance
Revenue	$ 765.8	$ 750.0	$ 15.8
Expenditure:			
Salary	2,392.3	2,476.2	(83.9)
Other	147.4	173.7	(26.3)
	2,539.7	2,649.9	(110.2)
Expenditure over revenue	$ 1,773.9	$ 1,899.9	$ 126.0

Comparison of Actual Revenue and Expenditure to the Preceding Year

	Actual		
	March 31		Increase
	1990	1989	(Decrease)
Revenue	$ 765.8	$ 852.5	$ (86.7)
Expenditure:			
Salary	2,392.3	2,360.9	31.4
Other	147.4	136.7	10.7
	2,539.7	2,497.6	42.1
Expenditure over revenue	$ 1,773.9	$ 1,899.9	$ 126.0

Variance Explanations:

Revenue

The increase in actual over the estimate is a result of additional audit work required which was not anticipated. The decrease in actual from the previous year mainly resulted from 1989 including receipts from several previous year's billings which were not repeated in 1990 and the discontinuance of audit fees from an entity which was privatized.

Expenditure

The decrease in actual salary expenditures from the estimate is attributable to delays in filling vacancies caused by staff departures. The decrease in actual other expenditures from the estimate was primarily a result of computer projects which were postponed pending further review by our computer analyst.

Five Year Expenditure and Staffing Summary

1985/86		1986/87		1987/88		1988/89		1989/90	
SY	$	SY	$	SY	$	SY	$	SY	$
61	2.3M	59	2.3M	59	2.3M	58	2.5M	58	2.5M

Audit of the Accounts of the Provincial Auditor's Office

A professional accountant from the Comptroller's Division of the Department of Finance carried out an audit of the accounts of the Office of the Provincial Auditor in accordance with section 19 of The Provincial Auditor's Act. A copy of the audit report issued by the Comptroller is included in this report as Exhibit 7.

EXHIBITS

Exhibit 1

Legal Provisions

The Provincial Auditor and his staff operate under the authority of the Provincial Auditors Act. Significant sections of the Act regarding our reporting responsibilities follow.

Report to Assembly

13(1) The Provincial Auditor shall report annually to the assembly

(a) on the work of his office; and

(b) on whether, in carrying on the work of his office, he received all the information and explanations he required.

Content of the Report

13(1.1) Each report of the Provincial Auditor under subsection (1) shall call attention to anything that he considers to be of significance and of a nature that should be brought to the attention of the assembly, including any cases in which he has observed

(a) that accounts have not been faithfully and properly maintained or public moneys which are required by law to be fully accounted for and paid into the Consolidated Fund have not been so accounted for and paid;

(b) that essential records have not been maintained or that the rules and procedures applied have been insufficient

(i) to safeguard and control public property, or

(ii) to secure an effective check on the assessment, collection and proper allocation of the revenue, or

(iii) to ensure that expenditures have been made only as authorized; and

(c) that public moneys have been expended other than for the purposes for which it was appropriated by the Legislature.

Exhibit 1

Submission of Report

13(2) The report of the Provincial Auditor shall, on or before the thirty-first day of December next after the close of the fiscal year for which it was made, be delivered to the Lieutenant Governor in Council to be laid before the assembly if it is then in session, or, if the assembly is not then in session, within fifteen days after the commencement of the next ensuing session.

Report on Government Statements

14 The Provincial Auditor shall examine the several financial statements required to be included in the Public Accounts under The Financial Administration Act, and any other statements which the member of the Executive Council charged with the administration of The Financial Administration Act may present for audit, and shall express his opinion as to whether they fairly present information in accordance with accounting policies of the Government stated in the Public Accounts and on a basis consistent with that of the preceding year together with any reservations he may have with respect thereto.

Exhibit 2

Scope of Audit and Reporting Procedures

Role and Mission of the Office

The role and mission of the Office of the Provincial Auditor is to serve the Members of the Legislative Assembly and the public by providing independent audit opinions on Government and agency financial statements and evaluations on the financial and administrative management of the Government, its agencies and grant recipients. The Office also exists to promote improvement in financial and administrative management and accountability.

The role and mission of the Office of the Provincial Auditor may be viewed in relation to two key concepts: accountability and audit.

Accountability can be defined as the obligation to answer for a responsibility that has been delegated. It presumes the existence of at least two parties; one who allocates responsibility and one who accepts it with the undertaking to report upon the manner in which it has been discharged.

Audit can be defined as a process that is superimposed on an accountability relationship. It is carried out to establish that accountability reporting on the responsibility assumed is correct or fair. An audit is usually performed by a third party, primarily serving the interests of the party who delegated the responsibility. Audit results are normally communicated in formal audit reports.

One of the key objectives of the Office of the Provincial Auditor is to examine the administrative accountability of the Government to the Legislature. We also consider accountability relationships within Government administration, including those within departments and agencies, as part of the scope of our audits. The work of the Office provides independent information, advice and assurance to the Legislature and the public regarding accountability. As such it is an important link in the chain of accountability and stewardship of public funds.

In fulfilling its role and mission, the Office endorses the following basic philosophies:

- promotion of a service as opposed to a control function;
- development of a constructive, cooperative approach to improving administrative practices;
- maintenance of sound administrative practices within our own Office in such areas as budgeting, expenditure control, staff training and management;
- recognition that staff are the prime resource for the development of improved systems and procedures and
- promotion of generally accepted accounting principles for the public sector.

The Provincial Auditor is an independent officer of the Legislative Assembly and is accountable to the Legislative Assembly. The Provincial Auditor's Act sets out the

Exhibit 2

Provincial Auditor's mandate.

The Provincial Auditor is required to carry out audits and report any cases where he has observed matters which he considers to be "of significance" and "of a nature" that should be reported to the Legislative Assembly. This provides a process for independent, objective assessment of the accountability reporting and the administrative practices and controls of the Government, its agencies and recipients of public moneys. To fulfill its mandate the Office carries out attest, compliance and broader scope audits of the Government, the Crown agencies listed in Exhibit 4, and departmental funds listed in Exhibit 5; broader scope and compliance audits of the Government agencies listed in Exhibit 6, whose attest audits are carried out by private-sector audit firms; inspection audits of selected recipients of public monies and; special audits, at the direction of the Lieutenant-Governor in Council or the Minister of Finance, provided they do not interfere with the Office's primary responsibilities.

Attest audits involve the expression of professional opinions on:

- the annual financial statements of the Government, those Crown agencies where the Provincial Auditor has been appointed attest auditor (Exhibit 4) and departmental funds (Exhibit 5);
- prospectus documents when the Government raises funds through borrowings and
- financial reports on cost-sharing arrangements.

Compliance audits involve:

- the examination of requests for payment from the Consolidated Fund; and
- reporting to the Legislative Assembly and Ministers of the Government cases observed where:
  - expenditures from the Consolidated Fund have been made without authority;
  - expenditures exceed the approved legislative vote;
  - expenditures have been made for purposes other than as voted by the Legislature and
  - there has been non-compliance with applicable legislation.

Broader scope audits involve reporting to the Legislative Assembly and Ministers of the Government on the adequacy of management practices and controls, including those intended to safeguard assets and promote economic, efficient and effective use of resources. The audits are conducted to examine and report on the administrative, financial and accountability systems, including internal controls and organizational relationships within Government, Crown agencies, departmental funds and recipients of public funds.

Our annual Report to the Legislative Assembly is the most important output from our activities. Our Report completes the Office's accountability cycle by reporting to the Assembly on the use of resources provided to the Office and the results of its work.

Our work results in recommendations for improving the financial and administrative management and accountability practices of Government, its agencies and grant recipients. The focus of these recommendations is the protection and prudent

Exhibit 2

management of public resources.

The following paragraphs provide further detail on our activities and our reporting procedures.

Audits of the Provincial Government, Crown Agencies and Departmental Funds Entirely Audited by the Provincial Auditor

The Office performs audits of the Government of the Province of Manitoba, the Crown agencies listed in Exhibit 4, and departmental funds listed in Exhibit 5, using a systems-based, risk-driven audit approach under the direction of professional accountants. These audits consist of the following four components:

I. We undertake attest audits to express an opinion on the fairness of the presentation of the financial statements developed by Government or Crown agency officials. We conduct our examination in accordance with generally accepted auditing standards. This includes a general review and evaluation of the accounting procedures and internal financial controls, together with such tests of key financial controls, accounting records, and supporting evidence as are considered necessary in the circumstances.

2. We examine requests for payment from the Consolidated Fund as departments present them to the central system for processing. These examinations fall within the scope of our compliance or broader scope audit work. The examination meets the pre-audit requirements of sections 10 and 11 of The Provincial Auditor's Act. The pre-audit process also provides early detection of weaknesses or problems so prompt corrective action can be taken. This process also enables the Office to examine proposed special and unusual payments on a timely basis. The examination of payments from the Consolidated Fund consists of the following:

    a) We examine all requests for payment for legislative authority and approval by designated officials. During this work, we review all significant requests for payment to satisfy ourselves that they are being handled in a business-like manner to protect the Province's interests. This work includes checking requests for payment to contracts, Orders-in-Council and Treasury Board minutes. We would refuse requests for payment not meeting the above requirements. Where legislative authority for payment is lacking, payments cannot be made. Payment requests that we refuse for other reasons can only be made by the special authority of the Minister of Finance. Audit observations arising from this process are normally attended to in a satisfactory manner to prevent any need for refusal. However, should there be a refusal which requires the special authority of the Minister of Finance, we would report the particulars to the Legislative Assembly in this Report.

    b) We test check requests for payment for completeness of supporting documentation, compliance with Government directives, etc. to satisfy ourselves that the departmental purchasing, payroll and disbursements systems are operating satisfactorily. Matters noted requiring further attention are considered in the evaluation of the departmental systems, and in the development of audit recommendations for improvement. If the testing and evaluation of departmental systems reveals a breakdown, and we conclude that the work being carried out by departmental personnel could not be relied upon to safeguard provincial funds, we would refuse further requests for payment. In such an instance, in accordance with The Provincial Auditor's Act, payments could only then be made on the special authority of the Minister of Finance. Departmental systems are normally corrected to incorporate audit recommendations for improvement on an ongoing basis to maintain the integrity of the systems. However, should this not be done and we had to refuse payment requests, we would report the matter to the Legislative Assembly in this Report.

3. We examine the financial and administrative management practices and the related key internal controls to ascertain that the entity is organized and operating in an appropriate manner. These examinations are broader scope audits. The objective of this work is to satisfy ourselves that the financial and administrative practices of the entity give due regard to matters regarding economy, efficiency and effectiveness. We carry out this examination within the capabilities of professional accountants with specialized training and experience. In reviewing the administrative management practices, we use the Government's Management Practices Guide as a standard. The examination may include reviews of:

   - the entity's objectives and planning practices;
   - its organizational structure;
   - its budgeting and monitoring systems for comparing actual results with budgets and plans and determining variance explanations;
   - its reporting and evaluation practices including the internal audit system;
   - its purchasing and personnel procedures and
   - its adherence to Government guidelines.

4. We audit to determine that the entity is complying with legislation.

5. We may undertake a more in-depth investigation of specific concerns raised or observed during the above-mentioned examinations or noted from other sources. Such other sources may be:

   - the Legislative Assembly or any of its committees;
   - the Lieutenant Governor in Council or the Minister of Finance, provided this does not interfere with our primary responsibilities;
   - the news media and
   - elected members, public servants and the general public.

   We consider the sources of this information to be strictly confidential.

Exhibit 2

Overview Audits of Crown Agencies Whose Financial Statements Were Audited by Private-Sector Audit Firms

We carry out overview audits for those Crown agencies listed in Exhibit 6. These are agencies for which audit firms were appointed to carry out financial attest audits on the financial statements. The audits conducted by the audit firms are of a kind as described in component 1. Our overview audits may consist of a review of the audited financial statements, management reports of the audit firms and matters of a broader scope nature as described in components 3, 4 and 5.

Special Audits

Section 15 of The Provincial Auditor's Act provides authority for the Provincial Auditor to undertake special audits. Special audits may be undertaken as considered appropriate and as requested. The Lieutenant Governor in Council or the member of the Executive Council charged with the administration of The Financial Administration Act may request the Provincial Auditor to undertake special audits. If the audit does not interfere with the Office's primary responsibilities, the Provincial Auditor accepts the special audit and gives it a high priority. The special audits may relate to any aspect of an entity's operations and may encompass procedures as previously described in components 1, 3, 4 and 5.

Inspection Audits

We conduct inspection audits of recipients of public funds under the authority of section 17(4) of The Provincial Auditor's Act. The audit procedures are similar to those of the management overview audits described previously in components 3, 4 and 5. These audits are limited in number. We review a large number of grantees for accountability during the audits of the Government departments and Crown agencies. These reviews mainly consist of an evaluation of the adequacy of the grantors' systems to monitor the grantees' accountability of funds received. We also assess grant accountability concerns observed by the grantor and determine if the grantor has taken corrective action.

Involvement in Prospectuses

The Government of the Province of Manitoba raises funds in financial markets to meet a portion of its requirements. The Government uses the funds to:

- finance general Government programs;
- provide advances to Crown corporations and agencies for programs and capital projects and
- replace maturing debt.

The Government raises the funds it requires through the issuance of debt instruments. The Government has raised funds in Canada, the United States of America, Europe, and the Orient. The issuance of prospectuses is an important part of raising funds. Prospectuses are essential documents, as they help potential investors evaluate the attractiveness of purchasing Manitoba Government debt instruments. The various

Exhibit 2

jurisdictions in which the Government raises funds have different informational requirements. In some jurisdictions, the prospectus documents must include comprehensive historical and financial information about Manitoba, the Government's financial condition and operations. In addition, information about the operations of major Crown entities established by the Government is required. Other jurisdictions have less stringent informational requirements. The United States requires input from our Office regarding a review of financial information included in the prospectus documents.

Over the past several years, the Government has approached the financial markets frequently to raise the cash it needs. Because of the importance of the prospectus document to the potential investor, we spend considerable effort fulfilling our professional responsibilities in satisfying ourselves of the reasonableness of the information included in the various prospectus documents.

Reporting Procedures

Reporting on Financial Statements

We issue attest audit opinion reports on the fairness of the presentation of information in the financial statements of the Government of the Province of Manitoba, of the Crown agencies listed in Exhibit 4 and of the departmental funds listed in Exhibit 5. We provide an attest audit opinion report on the Government's Consolidated Fund financial statements and on the Government's Summary financial statements.

Attest Audit Opinion Reports

Standard attest audit opinion reports generally include only two standard paragraphs. The first is a paragraph which refers to the scope of our audit. The second paragraph expresses an opinion on the financial statements. We provide further details concerning these two standard paragraphs.

The first paragraph of the report indicates which financial statements have been examined. It also contains a reference to the nature of the audit work performed. The phrase, "generally accepted auditing standards" relates to three broad standards.

> The first is a general standard dealing with the persons performing the work. The work is to be performed by persons having appropriate technical training and proficiency in auditing. It also relates to the expectation that the audit is to be performed with due care and with an objective state of mind.
>
> The second standard relates to the audit work performed. The audit work is to be adequately planned, properly executed and supervised. In addition, there is to be an appropriately organized study, testing and evaluation of those controls on which the auditor will be relying upon in determining the nature, extent and timing of audit procedures to be performed. The examination standard also requires that sufficient and appropriate audit evidence be obtained to provide a reasonable basis to support the content of the report.

We seek reasonable assurance that information provided in the financial statements, taken as a whole, is fairly presented. We undertake audit procedures designed to assess the fairness of the financial statement representations. Absolute audit assurance regarding the fairness in presentation is not possible. Accordingly, the evidence accumulated during an audit does not guarantee absolute precision. In the audit of any large organization it is neither feasible nor economically desirable to examine every financial transaction. Instead, a sampling of transactions is carried out by the auditor in a manner designed to provide reasonable assurance that any errors contained in the financial statements are not, in total, significant enough to mislead the reader.

When determining the nature and extent of work required to provide such assurance, the auditor considers two important factors: materiality and overall audit assurance. Materiality is an amount expressed in dollars. The auditor is required to determine materiality based on his or her perception of the needs of users. If the total of all errors or misstatements in the financial statements were to exceed the materiality amount, this could affect or change decisions of persons relying on the financial statements. Overall audit assurance is the assurance an auditor obtains from the audit procedures that the total errors or misstatements in the financial statements will not be greater than materiality.

In planning our audits of financial statements, we exercise professional judgement in determining these two key factors. These factors to a large degree, establish the nature, extent and timing of the audit work to be undertaken.

For our audit of the 1990 Consolidated Fund financial statements and the Summary financial statements our materiality limit was $20 million and our overall audit assurance was 95%. This means that we were 95% confident that the total of any errors in these financial statements would be less than $20 million.

The third standard relates to reporting. Reference to the scope of the audit examination in the report is required. This standard also provides direction regarding the contents in the report. Reference is made to "such tests and other procedures as were considered necessary". It is impractical to examine all transactions. Accordingly, we perform many procedures on a test basis. We exercise professional judgement in determining the procedures we undertake and their extent. The report also indicates whether limitations or restrictions were placed upon the audit process.

The second paragraph of the report expresses our opinion on the basis of the evidence obtained on the management representations included in the financial statements. We exercise judgement in forming our opinion as to whether the information contained in the financial statements "present fairly" the financial position of the Government, its agencies or departmental funds and the results of operations and changes that have occurred during the fiscal year. We also exercise professional judgement about the

Exhibit 2

appropriateness of the accounting principles adopted during the development of the financial statements. Further, we exercise professional judgement about the adequacy of the presentation adopted within the financial statements. Consistency with the disclosed basis of accounting is the first standard for comparison in determining our opinion for reporting on the financial statements. We evaluate the accounting policies to determine whether they are appropriate under the circumstances. For the financial statements of the Government, its agencies and departmental funds, we use recommendations developed by the Canadian Institute of Chartered Accountants as a guide to evaluate the accounting policies. If we conclude that the accounting policies are not appropriate, our report would indicate our reservation. Changes in accounting principles between fiscal years could have a significant impact upon the comparability of reported amounts. Therefore, our audit report also indicates whether there is comparability of financial statements between fiscal years. This reporting aspect is embodied in the phrase "basis consistent with that of the preceding year".

Internal Reporting

During our audits, observed instances of non-compliance with legislation, weaknesses in internal control, ineffective financial and administrative management practices, records not being up-to-date and any other deficiencies or irregularities are brought to the attention of the officials concerned for appropriate action. Matters which warrant the attention of ministers and chairpersons of the boards of Crown agencies are directed to them and to the Minister of Finance in written reports. During subsequent visits, we follow up these matters to ascertain whether appropriate corrective action has been taken.

Report to the Legislative Assembly

We include significant matters in our annual Report to the Legislative Assembly. Generally, these matters have been reported to ministers and chairpersons of the boards of Crown agencies and have not been resolved within a reasonable period of time. However, we may also include in the Report significant matters which may be reported for the first time or significant matters which have been resolved. These matters are of a kind which in the Provincial Auditor's judgement warrant the attention of the Assembly as information, either because they were raised in the Assembly, or a committee of the Assembly, or for reasons of maintaining confidence in the system. Both the problems and the corrective actions are reported.

Section 13(5) of The Provincial Auditor's Act also provides that a special report may be made to the Legislative Assembly. In determining whether we should develop a special report, we evaluate the criticality of the issue. If we conclude that a matter is of pressing importance or urgency that requires special attention and action by the Assembly, a special report will be made.

Exhibit 3

Office of the Provincial Auditor Organizational Chart

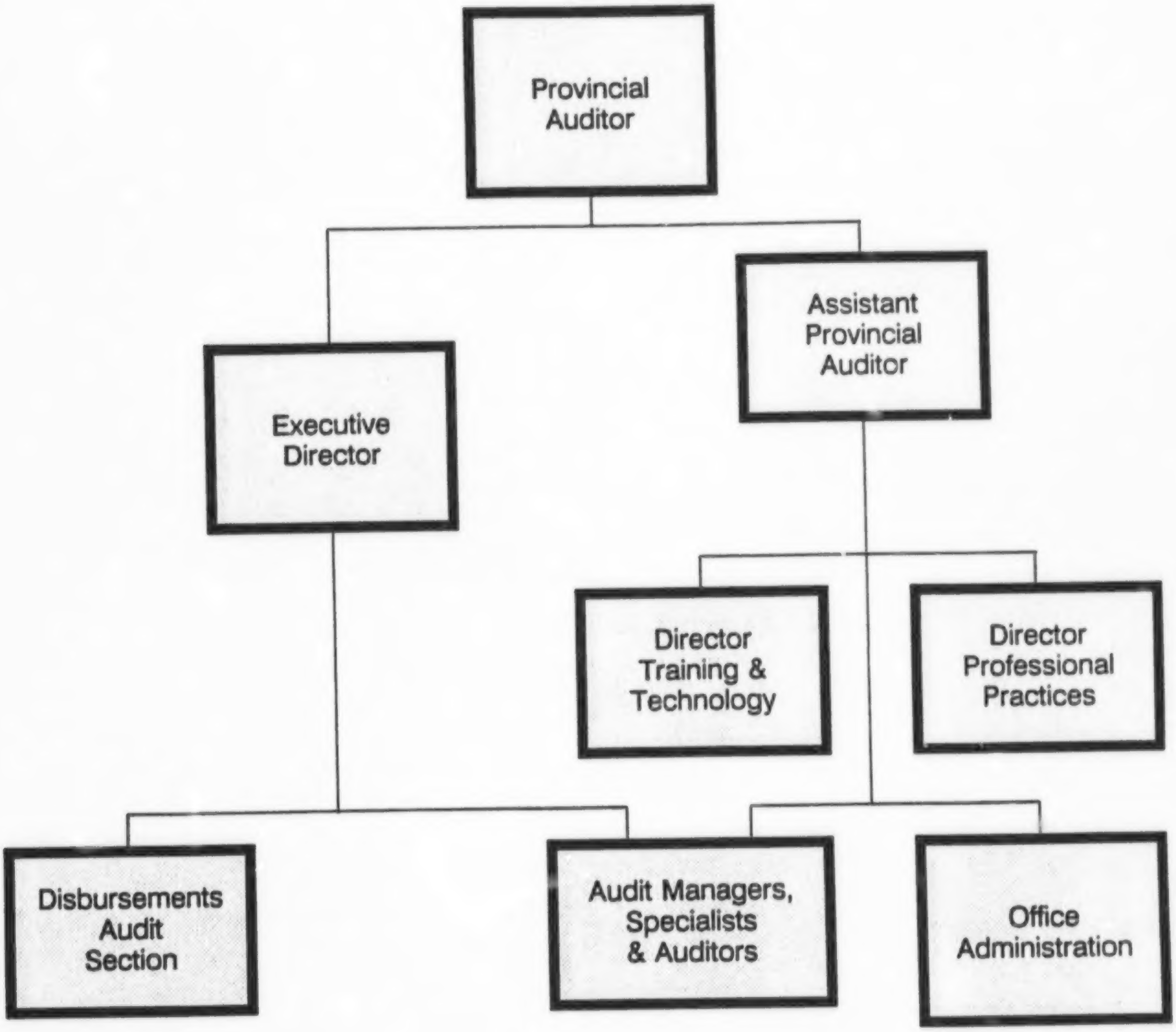
Provincial Auditor
Executive Director
Assistant Provincial Auditor
Director Training & Technology
Director Professional Practices
Disbursements Audit Section
Audit Managers, Specialists & Auditors
Office Administration

Exhibit 4

Schedule of Crown Agencies Whose Financial Statements Were Audited and Reported on by the Provincial Auditor's Office

---

Name of Organization	**Fiscal Year Ended**
Alcoholism Foundation of Manitoba	March 31, 1990
Board of Administration under The Embalmers and Funeral Directors' Act	December 31, 1989
Brandon University	March 31, 1990
Brandon University Holding Company	March 31, 1990
Brandon University Retirement Plan	December 31, 1989
Centre Culturel Franco-Manitobain	March 31, 1990
Channel Area Loggers Ltd.	March 31, 1990
Civil Service Superannuation Fund	December 31, 1989
Co-operative Loans and Loans Guarantee Board	March 31, 1990
Co-operative Promotion Board	March 31, 1990
Criminal Injuries Compensation Board	March 31, 1990
Habitat Heritage Corporation	March 31, 1990
Horse Racing Commission	March 31, 1990
Leaf Rapids Town Properties Ltd.	March 31, 1990
Legal Aid Services Society of Manitoba	March 31, 1990
Liquor Control Commission	March 31, 1990
Manitoba Agricultural Credit Corporation	March 31, 1990
Manitoba Arts Council	March 31, 1990
Manitoba Beef Commission	March 31, 1990
Manitoba Centennial Centre Corporation	March 31, 1990
Manitoba Crop Insurance Corporation	March 31, 1990
Manitoba Data Services Commission	December 31, 1989
Manitoba Hazardous Waste Management Corporation	December 31, 1989
Manitoba Health Research Council	March 31, 1990
Manitoba Health Services Commission	March 31, 1990
Manitoba Housing and Renewal Corporation	March 31, 1990
Manitoba Intercultural Council	March 31, 1990
Manitoba Lotteries Foundation	March 31, 1990
Manitoba Mental Health Research Foundation	March 31, 1990
Manitoba Milk Prices Review Commission	March 31, 1990
Manitoba Mineral Resources Ltd.	December 31, 1989
Manitoba Research Council	March 31, 1990
Manitoba Training Advisory Council Inc.	June 30, 1989
Manitoba Trading Corporation	March 31, 1990
Manitoba Water Services Board	March 31, 1990
Moose Lake Loggers Ltd.	March 31, 1990
Municipal Employee Benefits Fund	December 31, 1989
Public Investments Corporation of Manitoba	June 30, 1989

Exhibit 4

Schedule of Crown Agencies Whose Financial Statements Were Audited and Reported on by the Provincial Auditor's Office

---

Name of Organization	Fiscal Year Ended
Public Schools Finance Board	June 30, 1989
Public Service Group Insurance Fund	April 30, 1989
Public Trustee of Manitoba	March 31, 1990
Teachers' Retirement Allowances Fund	December 31, 1989
Universities Grants Commission	March 31, 1990
University of Manitoba	March 31, 1990
University of Manitoba Pension Plans	December 31, 1989
University of Manitoba Research Ltd.	March 31, 1990
University of Manitoba Research and Development Ltd.	March 31, 1990
University of Winnipeg	March 31, 1990
University of Winnipeg Pension Plan	December 31, 1989
Venture Manitoba Tours Ltd.	March 31, 1990
Westarc Group Inc.	March 31, 1990
Workplace Innovation Centre	March 31, 1990

Exhibit 5

Schedule of Departmental Funds Whose Financial Statements Were Audited and Reported on by the Provincial Auditor's Office

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Name of Organization	Fiscal Year Ended
Fiscal Stabilization Fund	March 31, 1990
Manitoba Hospital Capital Financing Authority	March 31, 1990
Manitoba Text Book Bureau	March 31, 1990
Northern Affairs Fund	March 31, 1990
Office of the Queen's Printer	March 31, 1990

Exhibit 6

Schedule of Crown Agencies Whose Financial Statements Were Audited by Private-Sector Audit Firms With an Overview Audit by The Provincial Auditor's Office

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Name of Organization	Fiscal Year Ended
A. E. McKenzie Co. Ltd. and Subsidiaries	October 31, 1989
Communities Economic Development Fund	March 31, 1990
Credit Union Stabilization Fund	December 31, 1989
Crown Corporations Council	December 31, 1989
Fonds de Sécurité des Caisses Populaires	December 31, 1989
Manitoba Boxing and Wrestling Commission	March 31, 1990
Manitoba Development Corporation	March 31, 1990
Manitoba Energy Authority	March 31, 1990
Manitoba Hydro-Electric Board	March 31, 1990
Manitoba Properties Inc.	January 31, 1990
Manitoba Properties Leasing Inc.	December 31, 1989
Manitoba Properties Management Inc.	December 31, 1989
Manitoba Public Insurance Corporation	October 31, 1989
Manitoba Telephone System	December 31, 1989
Workers Compensation Board	December 31, 1989

Manitoba

Finance

Comptroller's Division

709 Norquay Building
Winnipeg, Manitoba, CANADA
R3C 0P8

Exhibit 7

November 30, 1990

Honourable Clayton Manness
Minister of Finance
103 Legislative Building
Winnipeg, Manitoba

Dear Sir:

Section 19 of the Provincial Auditor's Act states:

> "A qualified auditor nominated by the Executive Council or a committee thereof shall examine the receipts and disbursements of the Office of the Provincial Auditor and shall annually make a report of the outcome of the examination to the assembly which shall be submitted to the member of the Executive Council charged with the administration of the Financial Administration Act on or before the last day of December next following the end of the fiscal year of the government to which the report relates."

My division now performs this audit on a regular basis. Under my direction, an auditor from Financial and Management Systems Branch has conducted an audit of the Provincial Auditor's Office for the year ended March 31, 1990.

The audit was limited to a general review of the accounting procedures and accounting records of the Provincial Auditor's Office. Such tests were performed as were considered necessary in the circumstances.

In my opinion, the accounts of the Audit Office are maintained in an efficient, well organized manner and comply with all the requirements of the Financial Administration Act and all other applicable statutes.

Yours truly,

E. Rosenhek, C.A.,

E. Rosenhek
Comptroller

cc: F.H. Jackson

Exhibit 8

**Office of
the Provincial Auditor**

905 - 386 Broadway
Winnipeg, Manitoba, CANADA
R3C 3R6

REPORT OF THE OFFICE OF THE PROVINCIAL AUDITOR

To The Members of the Legislative Assembly of Manitoba:

Under the authority of section 14 of the Provincial Auditor's Act, we have examined the Operating Fund statements of financial position and excess of liabilities over financial assets of the Consolidated Fund of the Government of the Province of Manitoba as at March 31, 1990 and the Operating Fund statements of revenue and expenditure, changes in financial position, and those Operating Fund statements provided under statutory requirement for the year then ended. We have also examined the Trust Fund statements of assets and liabilities, cash and investments and balances, of the Consolidated Fund of the Government of the Province of Manitoba as at March 31, 1990. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, except for the matter presented as reservation 1 regarding amounts receivable, these financial statements present information in accordance with the accounting policies of the Government of the Province of Manitoba stated in notes 1 to the Operating Fund and Trust Fund financial statements of the Consolidated Fund applied on a basis consistent with that of the preceding year. We also report two additional reservations regarding the Government's accounting treatment of pension liabilities and associated pension costs and transactions with the Fiscal Stabilization Fund. In our opinion, except for the effects of these three reservations as set out below, these financial statements present fairly the financial position of the Consolidated Fund of the Government of the Province of Manitoba as at March 31, 1990 and the results of its operations and the changes in its financial position for the year then ended.

Reservation 1 - Recording of a Pending Amount Receivable from the Government of Canada

Recorded in the Operating Fund financial statements is $18.7 million in emergency disaster amounts receivable from the Government of Canada regarding a pending claim for fire suppression costs. The Governments of the Province of Manitoba and Canada are in the process of negotiating a cost sharing arrangement to cover these costs. As at March 31, 1990, the Government had not finalized cost sharing arrangements for these costs, the Province had not submitted a formal claim to Canada and Canada had not acknowledged this liability. As a result, realization of this amount receivable depends on future negotiations. As at March 31, 1990, the classification of the $18.7 million as an amount receivable cannot be verified. Had the Government not recorded the $18.7 million as an amount receivable in its financial statements, revenue would be decreased and the annual deficit would be increased by $18.7 million for the year ended March 31, 1990. Also, financial assets would be decreased and the total excess of liabilities over financial assets and similar items (accumulated deficit) would be increased by $18.7 million as at March 31, 1990.

Reservation 2 - Failure to Record Pension Liabilities and Associated Pension Costs

In accordance with the accounting policy stated in note 1B2d to the Operating Fund financial statements, the Government does not record its pension liabilities and the costs associated with the annual increase in the pension liabilities for pension entitlements earned by its employees, teachers and Members of the Legislative Assembly in its financial statements. Note 13 provides information on the Government's estimated unfunded pension liabilities. The unfunded pension liabilities are estimated to be $1,157 million as at March 31, 1990. Had the Government recorded the unfunded pension liabilities and the

Exhibit 8

costs associated with the annual increase in the pension liabilities in its financial statements, expenditure and the annual deficit would be increased by an estimated $131 million for the year ended March 31, 1990. Also, liabilities and the accumulated deficit would be increased by an estimated $1,157 million as at March 31, 1990.

Reservation 3 - Transactions with the Fiscal Stabilization Fund

In accordance with the accounting policy stated in note 1A to the Operating Fund financial statements, the Government records in the Operating Fund the operational activities of the Government and reports amounts recorded as Government revenue, expenditure on Government programs, the lending and investment of Government funds and the borrowing and repayment of debt.

The Fiscal Stabilization Fund includes operating revenues that have been transferred from the Operating Fund. Segregation of the Fiscal Stabilization Fund from the Operating Fund results in the incomplete presentation of the Operating Fund financial statements.

For the year ended March 31, 1989, we reported our concern with the transfer of $200 million of Operating Fund revenues to the Fiscal Stabilization Fund. Our concern continues as this transfer results in the overstatement by $200 million of the Government's liabilities and the accumulated deficit as at March 31, 1990.

For the year ended March 31, 1990, the Fiscal Stabilization Fund recorded $25 million of interest earned on the $200 million of Operating Fund revenues transferred in 1989. This interest should be combined with the Operating Fund. Had the Government combined this interest with the Operating Fund, expenditure and the annual deficit would be decreased by $25 million for the year ended March 31, 1990. Also, liabilities and the accumulated deficit would be decreased by $25 million as at March 31, 1990.

The combined effect of the three reservations on the Government's 1990 operations is a decrease in revenue of $18.7 million, an increase in expenditures of $106 million and an increase in the annual deficit of $124.7 million for the year ended March 31, 1990. Also, financial assets would be decreased by $18.7 million, liabilities would be increased by $932 million and the accumulated deficit would be increased by $950.7 million as at March 31, 1990.

Fred H. Jackson

Winnipeg, Manitoba
December 7, 1990

F. H. Jackson, CA
Provincial Auditor

Exhibit 9

GOVERNMENT OF THE PROVINCE OF MANITOBA

STATEMENT OF RESPONSIBILITY

Responsibility for the integrity and objectivity of the Operating Fund and Trust Fund financial statements rests with the Government. They are prepared under the direction of the Minister of Finance in accordance with the stated accounting policies of the Government and include a statement of financial position, a statement of excess of liabilities over financial assets, a statement of revenue and expenditure, a statement of changes in financial position, schedules and notes integral to the statements. Together, they present fairly, in all material respects the financial condition of the Consolidated Fund at the fiscal period-end and results of operations for the year then ended.

More detailed information regarding the Government's financial position and operating results can be found in other sections of this Volume and in Volume 2 of the Public Accounts. In addition, explanatory comments with respect to variances from planned revenue and expenditure, as well as increases from the prior year, are provided in each Government department's annual report.

On behalf of the Government

HONOURABLE CLAYTON MANNESS
Minister of Finance
December, 1990

Exhibit 9

GOVERNMENT OF THE PROVINCE OF MANITOBA

STATEMENT OF FINANCIAL POSITION

As at March 31, 1990
(with comparative figures for March 31, 1989)

SCHEDULE NO.		($ millions) 1990	($ millions) 1989
	FINANCIAL ASSETS		
	Cash and Equivalents	$ 555	$ 1,368
1.	Amounts Receivable	251	179
2.	Loans and Advances:		
	Crown Corporations, Agencies, Boards and Commissions	4,039	4,143
	Other Governments	8	9
	Other	54	58
3.	Long Term Investments	43	170
	Valuation Allowance (Note 2)	(68)	(214)
	Total Financial Assets	$ 4,882	$ 5,713
	LIABILITIES		
	Amount owing to the Trust Fund	$ 1,044	$ 1,162
4.	Accounts Payable, Accrued Charges, and Deferred Revenue	446	359
	Provision for Foreign Currency Fluctuation on Manitoba Hydro Debt (Note 3)	266	286
5.	Borrowings (Note 4):		
	Bonds and Debentures	6,287	6,850
	Canada Pension Plan	1,014	1,192
	Government of Canada	128	111
	Treasury Bills	451	452
	Unamortized Foreign Currency Fluctuation (Note 5)	(12)	(111)
	Total Liabilities	$ 9,624	$ 10,301
	EXCESS OF LIABILITIES OVER FINANCIAL ASSETS AND OTHER OBLIGATIONS HELD BY THE PROVINCE CONSIDERED TO BE SIMILAR IN NATURE		
	Serial Debentures of School Divisions and Districts (Note 6)	$ 118	$ 133
	Securities Received From the Sale of Land and Buildings (Note 7)	205	182
	Excess of Liabilities Over Financial Assets	4,419	4,273
	Total Excess of Liabilities Over Financial Assets and Similar Items	$ 4,742	$ 4,588

Information concerning the Government's Guaranteed and Indirect Liabilities, Financial Commitments, Contingent and Pension Liabilities can be found in Notes 9, 11, 12 and 13.

Trust Fund Assets/Liabilities at March 31, 1990 were $2,538 million (1989 - $2,468 million). Further details are displayed in Note 8.

Exhibit 9

GOVERNMENT OF THE PROVINCE OF MANITOBA

STATEMENT OF EXCESS OF LIABILITIES OVER FINANCIAL ASSETS

As at March 31, 1990
(with comparative figures for March 31, 1989)

	($ millions) 1990	($ millions) 1989
BALANCE, BEGINNING OF YEAR	$ 4,273	$ 4,131
Repurchase of Land and Buildings from Manitoba Properties Inc	4	-
Deficit for the Year	142	142
BALANCE, END OF YEAR	$ 4,419	$ 4,273

Exhibit 9

GOVERNMENT OF THE PROVINCE OF MANITOBA

STATEMENT OF REVENUE AND EXPENDITURE

For the Year Ended March 31, 1990
(with comparative figures for the year ended March 31, 1989)

	($ millions)		
	1990		1989
	Budget Estimate	Actual	Actual
REVENUE			
Manitoba Collections:			
Retail Sales Tax	$ 625	$ 622	$ 595
Fuel Taxes	193	191	187
Liquor Commission	153	146	150
Levy for Health and Education	180	191	199
Other Taxes	466	413	421
Fees and Other Revenue	212	202	192
Income Taxes:			
Corporation Income Tax	167	152	201
Individual Income Tax	1,038	1,031	1,030
Federal Transfers:			
Equalization	853	910	863
Health and Higher Education Cash Transfer	452	431	426
Shared Cost and Other	290	317	279
TOTAL REVENUE BEFORE TRANSFER FROM (TO) FISCAL STABILIZATION FUND	$ 4,629	$ 4,606	$ 4,543
Transfer from (to) Fiscal Stabilization Fund (Note 14)	50	-	(200)
TOTAL REVENUE	$ 4,679	$ 4,606	$ 4,343
EXPENDITURE (Schedule 6 and 7) (Note 15)			
Health	$ 1,558	$ 1,521	$ 1,429
Education and Training	859	871	817
Family Services	492	485	447
Economic and Resource Development	578	614	577
Assistance to Local Governments and Taxpayers	385	379	365
Justice, Administration and Other Government Services	456	453	431
Public Debt	488	425	375
Hydro Rates Stabilization	-	-	44
	$ 4,816	$ 4,748	$ 4,485
Less: Year End Lapse	50	-	-
TOTAL EXPENDITURE	$ 4,766	$ 4,748	$ 4,485
DEFICIT FOR THE YEAR	$ 87	$ 142	$ 142

Exhibit 9

GOVERNMENT OF THE PROVINCE OF MANITOBA

STATEMENT OF CHANGES IN FINANCIAL POSITION

For the Year Ended March 31, 1990
(with comparative figures for the year ended March 31, 1989)

	($ millions) 1990 Budget Estimate	1990 Actual	1989 Actual
Beginning Cash and Equivalents		$ 1,368	$ 848
Operating Transactions:			
Deficit for the Year	$ (87)	$ (142)	$ (142)
Non Cash Items Included in the Deficit:			
(Increase) in Amounts Receivable	-	(72)	(4)
Write-Off/Down of Loans, Advances, and Long-Term Investments	-	-	8
Increase in Valuation Allowance Charged to Expenditure	-	12	17
Increase in Accounts Payable, Accrued Charges, and Deferred Revenue	-	86	13
Amortization of Foreign Currency Fluctuation	93	12	116
Amortization of Debt Discount	10	9	8
Cash and Equivalents Required for Operations	$ 16	$ (95)	$ 16
Investing Transactions (Note 16):			
Acquired/Made	$ (833)	$ (323)	$ (735)
Redeemed/Realized	428	370	322
Cash and Equivalents Required for Investing	$ (405)	$ 47	$ (413)
Financing Transactions (Note 16):			
Debt Issued: Foreign	$ N.E.	$ 888	$ 1,110
Domestic	N.E.	135	516
	$ 1,555	$ 1,023	$ 1,626
Debt Redeemed: Foreign	(387)	(828)	(686)
Domestic	(409)	(428)	(135)
Payment to(from) Provision for Foreign Currency Losses	(6)	(6)	-
Increase in Sinking Funds	(192)	(408)	(207)
	561	(647)	598
Change in Trust Fund	-	(118)	319
Cash and Equivalents Obtained From Financing	$ 561	$ (765)	$ 917
Change in Cash and Equivalents During Period	$ 172	$ (813)	$ 520
Ending Cash and Equivalents		$ 555	$ 1,368

N.E. Not Estimated

GOVERNMENT OF THE PROVINCE OF MANITOBA

AMOUNTS RECEIVABLE

SCHEDULE 1

As at March 31, 1990
(with comparative figures for March 31, 1989)

	($ millions) 1990	($ millions) 1989
Tax Revenue:		
Retail Sales Tax	$ 51	$ 48
Motive Fuel Tax	6	6
Gasoline Tax	10	10
Tobacco Tax	4	8
Revenue Act, 1964	5	5
	$ 76	$ 77
Interest Income:		
Province of Manitoba Sinking Fund	$ 39	$ 31
Other Investments	22	23
	$ 61	$ 54
Government of Canada and Other Governments:		
Shared Cost Programs	$ 112	$ 45
Other:		
Manitoba Lotteries Foundation	$ -	$ 3
City of Winnipeg	2	-
	$ 2	$ 3
	$ 251	$ 179

Exhibit 9

GOVERNMENT OF THE PROVINCE OF MANITOBA

LOANS AND ADVANCES

SCHEDULE 2

As at March 31, 1990
(with comparative figures for March 31, 1989)

($ millions)

	Crown Corporations, Agencies, Boards and Commissions	Other Governments	Other	1990 Total	1989 Total
Due 1 Year or Less............	$ 627	$ 1	$ 27	$ 655	$ 523
Due Over 1 Year................	3,598	7	27	3,632	3,859
Total..............................	$ 4,225	$ 8	$ 54	$ 4,287	$ 4,382
Less: Sinking Funds...........	186	-	-	186	172
	$ 4,039	$ 8	$ 54	$ 4,101	$ 4,210
Less: Valuation Allowance....	43	-	5	48	67
Net..............................	$ 3,996	$ 8	$ 49	$ 4,053	$ 4,143

GOVERNMENT OF THE PROVINCE OF MANITOBA

LONG TERM INVESTMENTS

SCHEDULE 3

As at March 31, 1990
(with comparative figures for March 31, 1989)

($ millions)

	Crown Corporations	Other	1990 Total	1989 Total
Shares:				
Common..	$ 22	$ 5	$ 27	$ 47
Preferred..	2	-	2	109
Debentures...	3	-	3	3
Profit Sharing Agreement..........................	-	11	11	11
	$ 27	$ 16	$ 43	$ 170
Less: Valuation Allowance........................	6	14	20	147
Net..	$ 21	$ 2	$ 23	$ 23

GOVERNMENT OF THE PROVINCE OF MANITOBA

ACCOUNTS PAYABLE, ACCRUED CHARGES AND DEFERRED REVENUE

SCHEDULE 4

As at March 31, 1990
(with comparative figures for March 31, 1989)

	($ millions) 1990	($ millions) 1989
Accounts Payable	$ 193	$ 101
Accrued Charges:		
Interest Accrued on Provincial Borrowings and Trust Funds	181	198
Other Accrued Liabilities (Note 10):		
Manitoba Public Insurance Corporation	32	32
Criminal Injuries Compensation Board	20	17
Manfor Ltd. Divestiture	10	-
Manitoba Milk Producers Marketing Board	2	2
Communities Economic Development Fund	1	1
Other	1	1
Deferred Revenue	6	7
	$ 446	$ 359

Exhibit 9

GOVERNMENT OF THE PROVINCE OF MANITOBA

SCHEDULE OF LIABILITIES FOR BORROWINGS

SCHEDULE 5

As at March 31, 1990
(with comparative figures for March 31, 1989)

($ millions)

Fiscal Year of Maturity	Bonds and Debentures Cdn$	Bonds and Debentures US$	Bonds and Debentures Other	Canada Pension Plan Cdn$	Govt of Canada Cdn$	Treasury Bills Cdn$	Totals 1990	Totals 1989
1990	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,453
1991	502	119	10	51	5	650	1,337	756
1992	134	176	196	54	5	-	565	482
1993	995	218	20	57	5	-	1,295	1,201
1994	41	546	32	65	5	-	689	673
1995	381	298	20	74	5	-	778	830
1990-1995	$ 2,053	$ 1,357	$ 278	$ 301	$ 25	$ 650	$ 4,664	$ 5,395
1996-2000	$ 1,208	$ 1,691	$ 21	$ 467	$ 28	$ -	$ 3,415	$ 3,427
2001-2010	-	-	-	1,211	73	-	1,284	1,169
2011-2020	-	644	-	-	21	-	665	358
1996-2020	$ 1,208	$ 2,335	$ 21	$ 1,678	$ 122	$ -	$ 5,364	$ 4,954
Total Borrowings	$ 3,261	$ 3,692	$ 299	$ 1,979	$ 147	$ 650	$ 10,028	$ 10,349
Reduced by:								
Unamortized Debt Issue Costs	21	18	-	-	-	-	39	44
Debt of the Province of Manitoba held as Provincial Investments	-	-	-	-	-	199	199	198
Sinking Funds Provided	484	403	39	965	19	-	1,910	1,502
	$ 2,756	$ 3,271	$ 260	$ 1,014	$ 128	$ 451	$ 7,880	$ 8,605

Exhibit 9

GOVERNMENT OF THE PROVINCE OF MANITOBA

EXPENDITURE BY OBJECT

SCHEDULE 6

For the Year Ended March 31, 1990
(with comparative figures for the year ended March 31, 1989)

	($ millions) 1990	1989
Personnel Services	$ 668	$ 625
Grants/Transfer Payments	2,648	2,507
Transportation	38	18
Communications	25	23
Supplies and Services	276	260
Social Assistance Related	343	308
Other Operating	39	43
Public Debt	425	376
Hydro Rates Stabilization	-	44
	$ 4,462	$ 4,204
Capital Related	286	281
	$ 4,748	$ 4,485

Exhibit 9

GOVERNMENT OF THE PROVINCE OF MANITOBA

EXPENDITURE CATEGORY DETAIL

SCHEDULE 7

For the Year Ended March 31, 1990
(with comparative figures for the year ended March 31, 1989)

($ millions)

	1990 Budget Estimate	1990 Actual	1989 Actual
Health	$ 1,558	$ 1,521	$ 1,429
Education and Training	$ 859	$ 871	$ 817
Family Services	$ 492	$ 485	$ 447
Economic and Resource Development:			
Agriculture	$ 89	$ 82	$ 88
Energy and Mines	13	13	14
Environment and Environmental Innovations Fund	12	12	10
Highways and Transportation	227	230	217
Housing	51	54	52
Industry, Trade and Tourism	38	35	32
Natural Resources	104	150	109
Northern Affairs	33	34	43
Allowance for Losses and Expenditures Incurred by Crown Corporations and Other Provincial Entities	3	4	12
Canada-Manitoba Enabling Vote	8	-	-
	$ 578	$ 614	$ 577
Assistance to Local Governments and Taxpayers:			
Rural Development	$ 58	$ 56	$ 52
Urban Affairs	78	75	77
Tax Credit Programs	249	248	236
	$ 385	$ 379	$ 365
Justice, Administration and Other Government Services:			
Civil Service	$ 70	$ 68	$ 64
Cooperative, Consumer and Corporate Affairs	8	8	7
Culture, Heritage and Recreation	21	21	21
Executive Council	3	3	3
Finance - Department Programs	22	22	19
Government Services	150	139	149
Justice	144	146	134
Labour	17	17	14
Legislation	13	13	16
Status of Women and Seniors Directorate	1	1	1
Flood Control and Emergency Expenditures	2	15	3
General Salary Increases	5	-	-
	$ 456	$ 453	$ 431
Public Debt	$ 488	$ 425	$ 375
Hydro Rates Stabilization	$ -	$ -	$ 44
	$ 4,816	$ 4,748	$ 4,485

Exhibit 9

GOVERNMENT OF THE PROVINCE OF MANITOBA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 1990

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic accounting policies followed by the Government of the Province of Manitoba, which have been applied in the preparation of the Operating Fund Financial Statements are summarized below. These policies have been developed and are applied in accord with the provisions of the Financial Administration Act, which is Chapter F55 of The Continuing Consolidation of The Statutes of Manitoba.

A. THE REPORTING ENTITY

The financial transactions of the Government are recorded in the "Consolidated Fund". The activities of the Consolidated Fund are divided into the "Operating Fund", which records the operational activities of the Government, and the "Trust Fund", which records the trust administration function.

Financial statements prepared for the "Operating Fund" report amounts recorded as Government revenue, expenditure on Government programs, the lending and investment of Government funds and the borrowing and repayment of debt. Separate financial statements are prepared for the "Trust Fund" which report the activities in the various categories of trust money administered by the Government.

The financial operations of provincial Crown corporations, agencies, boards and commissions are not consolidated in these financial statements and are reflected in the Operating Fund financial statements only to the extent that:

1. they receive money from or pay money to the Government, or

2. any non-recoverable deficits they incur are adjusted against the amounts loaned, advanced or invested in them by the Government, or

3. where the Government has no loans, advances or investments involved, any losses they incur, which are assumed by the Government, are recorded as accrued charges.

B. BASIS OF ACCOUNTING FOR REVENUE AND EXPENDITURE

1. GROSS ACCOUNTING CONCEPT

Revenues and expenditures are recorded in gross amounts with the following exceptions:

a) The municipal share of Individual and Corporation Income Taxes, which is paid to Municipalities in accordance with the Provincial-Municipal Tax Sharing Act, is not recorded as revenue or expenditure by the Government.
b) Refunds of revenue are treated as reductions of current year revenue.
c) Decreases in valuation allowances previously provided are treated as reductions to expenditure.
d) Recoveries from Crown corporations and government agencies of the debt servicing costs on self-supporting debt are recorded as a reduction of Public Debt expenditure. The same treatment is also given to income earned on investments and advances.
e) Transfers to and from the Fiscal Stabilization Fund, under the provisions of the Fiscal Stabilization Fund Act, are applied directly against revenue.

2. MODIFIED ACCRUAL ACCOUNTING

The revenues and expenditures of the Government are recorded on an accrual basis with exceptions noted as follows:

a) INCOME FROM CANADA-MANITOBA FISCAL ARRANGEMENTS - This income is recorded on a cash basis with three exceptions:
   i) revenues received in advance of when they are earned are deferred to the appropriate fiscal year;

ii) money received in advance, relating to projects for which expenditures are to be made in more than one fiscal year, is deemed to be revenue in each fiscal year in proportion to the related expenditure made in the respective fiscal year; and

iii) the accounts are kept open until June 30 to reflect any adjustments regarding revenue from the Government of Canada under the Canada-Manitoba Fiscal Arrangements.

b) FEES AND OTHER REVENUE - Collections are recorded on a cash basis except for amounts received in April from Agents for provincially collected taxes pertaining to the year just ended which are recorded as revenue receivable.

c) SALARIES AND WAGES - Salaries and wages are recorded as expenditures in the year in which they are paid. No liability or expenditure is recorded for salaries earned but not paid at year end, or for salary related benefits such as vacation earnings.

d) PENSION - The annual cost recorded by the Government is its share of pensions paid to retired employees, teachers and Members of the Legislative Assembly.

The Government does not record its liability for the annual cost of pension benefits earned by employees, teachers and Members of the Legislative Assembly.

e) GOODS AND SERVICES - A period of forty-five days after the end of the fiscal year is allowed for the payment of operating expenditures incurred during that fiscal year. Payments in this period are reflected as accounts payable for the fiscal year just ended. Supplier accounts not paid within this period are treated as expenditures of the following year.

However, recording of expenditures is allowed after the forty-five day period if required to show the accurate financial condition of the Government, pursuant to authority provided under Section 8 of the Financial Administration Act. In this regard, any entries made after June 30 must be disclosed in the Public Accounts.

f) CAPITAL ASSETS AND INVENTORIES - Expenditures for the acquisition and/or construction of fixed assets and the acquisition of inventories are not considered to differ from any other service to the public and accordingly are treated as expenditures on the same basis as Goods and Services.

C. ASSETS AND LIABILITIES

1. Except for deferred revenue, the assets and liabilities reported in the financial statements are financial claims. The assets are claims by the Government on other parties and the liabilities are claims by other parties on the Government.

   Deferred revenue consists of money received from taxation and shared cost agreements which relate to future years, as well as unamortized fees from debt transactions to be amortized over the remaining life of the debt. This deferred revenue will be recorded in the appropriate year.

2. Capital assets and inventories do not represent financial claims on others. Therefore they are not reported as assets at fiscal year-end.

3. Loans, advances and long-term investments held by the Government are subject to annual valuation.

   The principal repayments and/or interest charges for some of the advances are dependent on total or partial funding from future appropriations of the Consolidated Fund. The major agencies to which this applies are the Manitoba Housing and Renewal Corporation, for most of the principal and interest funding, and The Manitoba Agricultural Credit Corporation, for partial interest funding.

A valuation allowance is provided to reflect decreases in the value of loans, advances and long-term investments and is adjusted annually for changes that have occurred in the estimated realizable value of these assets. Increases in the valuation allowance are recorded as expenditures, and conversely decreases in the valuation allowance are treated as a reduction of expenditures.

Loans, advances or long-term investments may be written-down in the accounts of the Government, pursuant to authority provided under the Financial Administration Act. The write-down is applied to the valuation allowance, whether it occurs in the year the valuation allowance is provided or in a subsequent year. Where an investment has been partially written-down to reflect a permanent decline in its realizable value, it is carried at its decreased value. Otherwise, it is recorded at cost.

4. Investments included in Cash and Equivalents and the Province of Manitoba Sinking Fund are recorded at cost adjusted for amortization of investment premium or discount. Any premium or discount incurred at the time of purchase is amortized annually to public debt expense over the life of the investment. The investments included in the remaining Sinking Funds are shown at cost and do not reflect any amortization of investment premium or discount.

   Investments denominated in foreign currency are translated to the Canadian dollar equivalent at the exchange rate in effect at March 31, unless the rate of exchange or a forward exchange contract fixing the value has been negotiated, in which case that rate or amount is used.

   Expenses and other transaction charges incurred on the purchase of investments during the year are charged to public debt expense. Those expenses incurred in foreign currency are translated at the exchange rate in effect on the transaction date.

   The year end investment translation adjustments reflecting the foreign exchange fluctuation from the value at the issue date are recorded through the Unamortized Foreign Currency Fluctuation account, and amortized annually to public debt expense over the life of the investment.

5. Borrowings, comprised of bonds, debentures and other long-term debt issued and payable in Canadian currency, are recorded at the par value of the issue. Discounts or premiums, as well as commissions incurred at the time of the issue of the debt, are amortized annually to public debt expense over the life of the debt. The unamortized portion is deducted from the par value of the debt.

   Fees received at the time of arranging debt transactions, in respect of options or warrants, are reflected as deferred revenue and amortized annually as a credit to public debt expense over the life of the debt. The unamoritzed portion is included in deferred revenue.

   Expenses and other transaction charges, such as legal fees, printing and registration, incurred during the year on the issue of debt are charged to public debt expense. Those expenses incurred in foreign currency are translated at the exchange rate in effect on the transaction date.

   Borrowings issued and payable in foreign currencies are recorded at the Canadian dollar equivalent of the par value based on the exchange rate in effect at March 31, unless the rate of exchange or a fixed amount has been negotiated through a currency exchange agreement or other arrangement, in which case that rate or amount is used.

   The year end translation adjustments reflecting the foreign exchange fluctuation from the value at the issue date are recorded through the Unamortized Foreign Currency Fluctuation account, and amortized annually to public debt expense over the life of the debt issue.

Exhibit 9

Where an issue of debt in a foreign currency is called for redemption prior to maturity and refinanced with another issue of debt, the Canadian dollar equivalent cost of the original debt is translated at the exchange rate in effect at the date of redemption. The resulting unrecognized foreign currency fluctuation is recorded through the Unamortized Foreign Currency Fluctuation account and is amortized to public debt expense over the term of the first replacement issue or the remaining term of the original issue, whichever is less. However, if the remaining term of the original issue is one year or less, the fluctuation is fully expensed in the year of redemption.

On maturity, any unrecognized foreign exchange gain/loss, being the difference between the recorded par value in Canadian currency and the required payment, is reflected in public debt expense.

Proceeds of debt raised for the purpose of retiring a specific debt issued on a later date and which are invested for a short term are valued in accordance with the accounting policy on Borrowings. Holdings of unmatured provincial debt issues purchased on the market for cancellation are valued in accordance with the policy on investments. Both these investment categories are reflected as reductions to Borrowings.

Sinking funds are maintained in accordance with legal requirements of the debt instruments and the Financial Administration Act, and are reflected as a reduction of Borrowings.

D. GUARANTEED AND INDIRECT LIABILITIES

In addition to having direct debt, the Government acts as a guarantor of securities issued by various other entities. The debt issued by Crown corporations, agencies, boards and commissions and guaranteed by the Government is largely self-supporting. Other guaranteed debt for schools, universities and hospitals is serviced in whole or in part from appropriations of the Consolidated Fund.

Legislation requires the maintenance of sinking funds for the retirement of the debt of most Crown corporations, agencies, boards and commissions. These sinking funds are held in Trust by the Minister of Finance. The Crown corporation, agency, board or commission to whom the debt applies, make annual contributions to the sinking fund.

Contingent liabilities that result from other financial activities of the Government are reported in the notes to the financial statements.

2. VALUATION ALLOWANCE

The valuation allowance is determined as follows:

A. CROWN CORPORATIONS, AGENCIES, BOARDS AND COMMISSIONS - LOANS, ADVANCES AND LONG-TERM INVESTMENTS

1. OPERATING DEFICITS

The valuation allowance is based on the financial results applicable to the most recent fiscal year completed prior to April 1. Where an assessment of the accumulated deficit indicates a prospect for recovery from future operations, the amount of the valuation allowance is adjusted accordingly.

2. NON-RECOVERY OF CAPITAL INVESTMENT

A valuation allowance may be provided where there is reasonable evidence that the Province's investment will not be realized.

3. MANITOBA PROPERTIES INC.

Beginning in 1988-89 but not retroactive, the annual valuation allowances in relation to advances to Manitoba Properties Inc. include provision for advances made in relation to capital expenditure as well as operating deficits.

Exhibit 9

If the Government has more than one type of investment in an organization (eg. common shares, preferred shares and debentures), the valuation allowance is assigned against the investments in order of priority on liquidation.

B. OTHER LONG-TERM INVESTMENTS
The valuation allowance is used to record losses, that are other than temporary declines, in the value of the Government's investments in other than Crown corporations, agencies, boards and commissions. The valuation allowance is based on an annual valuation of the investment.

C. OTHER LOANS AND ADVANCES
The valuation allowance is used to provide for the estimated amounts not recoverable under a Government loan or support program. The valuation allowance for doubtful accounts that has been established for that loan or support program is recorded by means of a valuation allowance placed against the loan or advance used to fund the program. Increases to the valuation allowance are recorded as an expenditure regardless of the timing of the write-off of the uncollectible accounts, such write-off being applied directly to the valuation allowance.

The March 31, 1990 valuation allowance balance of $68 million (1989-$214 million) is after having given effect to the write-down of some loans, advances and long-term investments where it has been determined that the realizable value has been permanently impaired:

	($millions)	
	1990	1989
Manitoba Agricultural Credit Corporation	$ 9	$ 5
Manitoba Beef Stabilization Fund	17	-
Manitoba Housing and Renewal Corporation	4	-
Manitoba Development Corporation	1	-
Insulation Loan Program	-	2
Emergency Interest Rate Relief Program	-	1
Venture Capital Program	1	-
	$ 32	$ 8

3. PROVISION FOR FOREIGN CURRENCY FLUCTUATION ON MANITOBA HYDRO DEBT

The Province issues provincial securities to raise funds for Manitoba Hydro. In addition, the Province guarantees debt which Manitoba Hydro issues in its own name. Until March 31, 1987, pursuant to the Energy Rate Stabilization Act, the Province was responsible for the currency fluctuation on all foreign debt issued for Manitoba Hydro purposes.

The Energy Rate Stabilization Act was amended effective April 1, 1987 making Manitoba Hydro responsible for the fluctuation on all of its foreign currency debt issued on or after that date. Manitoba Hydro was also made responsible for the fluctuation on its U.S. dollar denominated debt issued prior to April 1, 1987, except to the extent already provided by the Province to March 31, 1987.

Effective April 1, 1989 the Act was further amended to transfer responsibility to Manitoba Hydro for the remaining foreign currency risk associated with the debt issued prior to April 1, 1987. At March 31, 1989, using the foreign exchange rates in effect on that date, the Province adjusted its provision account to cover the total fluctuation in the value of this foreign debt.

At maturity of any foreign debt issue for Manitoba Hydro purposes, be it U.S. dollar denominated or other foreign currency, the Province is responsible for the lesser of the currency fluctuation on the maturing debt or the amount remaining in the provision account for that particular issue.

Exhibit 9

The provision account balance of $266 million at March 31, 1990 (1989-$286 million) represents the limit of the Province's liability for foreign exchange fluctuation on both U.S. dollar denominated debt and other foreign debt for Manitoba Hydro purposes.

4. BORROWINGS

All borrowings are expressed in Canadian dollars and are shown net of sinking funds, unamortized debt issue costs and debt of the Province of Manitoba held as provincial investments. Foreign borrowings are converted at the exchange rate in effect at March 31 adjusted for any foreign currency contract entered into for settlement after the fiscal year-end.

The weighted average rate of interest based on actual interest payments made during 1989-90 was 10.6% (1988-89 10.05%)

Money is allocated annually to the Province of Manitoba sinking funds on the following basis:

A. a sum equal to 3% of the aggregate amount of debt related to general government programs, in Canadian Dollars converted at the date of issue, outstanding at the end of the preceding fiscal year; and
B. all earnings derived from investing the sinking fund.

The Manitoba Hydro-Electric Board and the Manitoba Telephone System make annual contributions to their respective sinking funds for the orderly retirement of their debt based on 1% of debt and Provincial advances outstanding at the preceding fiscal year end plus 4% of the sinking fund balance.

In addition, all principal repayments of advances by other agencies are allocated to the sinking fund and will be utilized to retire other agencies' debt as such debt matures.

5. UNAMORTIZED FOREIGN CURRENCY FLUCTUATION

This balance represents the unamortized portion of unrealized foreign currency gains or losses on the conversion of the assets and liabilities of the Government to Canadian dollars at March 31. It also includes the unamoritzed portion of realized foreign currency gains or losses on the conversion of the foreign currency debt called prior to maturity using the rates in effect at the time of the call.

6. SERIAL DEBENTURES OF SCHOOL DIVISIONS AND DISTRICTS, TRANSFERRED FROM THE MANITOBA SCHOOL CAPITAL FINANCING AUTHORITY

The School Capital Financing Authority Act was repealed April 1, 1983 at which date all investments and money held by the Authority, as well as debt payable by the Authority, was assumed by the Government. The investments transferred to the Government consist of serial debentures issued by school divisions and districts for which the Government is primarily responsible for repayment. These securities are therefore included in this category because they do not represent a claim on other parties.

The estimates of expenditure provide an annual appropriation in the Operating Fund to cover the principal and interest costs of these debentures. The cash drawn from this appropriation for the required annual principal repayments is transferred to the Province's sinking fund where it will be used for repayment at maturity of the debt assumed from the Authority. A similar treatment would be accorded any proceeds from the sale of the school debentures.

7. SECURITIES RECEIVED FROM SALE OF LAND AND BUILDINGS

During 1984-85 and 1985-86 the Government sold land and buildings with an aggregate value of $917 million to Manitoba Properties Inc. (MPI). The sale was arranged through two intermediary Crown corporations, Manitoba Properties Leasing Inc. and Manitoba Properties Management Inc., and resulted in the Government receiving common shares of these two corporations along with promissory notes of MPI and cash as the purchase consideration.

The recorded value of the common shares has been reduced by a special valuation account which was established from a portion of the sale proceeds and is used to reflect the potential diminution in value of these shares as the result of dividends paid to preferred shareholders of Manitoba Properties Inc. on an annual basis. Manitoba Properties Leasing Inc. and Manitoba Properties Management Inc. each own 50% of the common shares of Manitoba Properties Inc. and the value of their equity in these shares could decrease annually with the payment of dividends by the latter to preferred shareholders.

Interest payable to the Province on the promissory notes is funded from annual rental payments made by the Government to Manitoba Properties Inc. and is therefore dependent on future appropriations of the Operating Fund. These securities are therefore included under this category because they do not represent a claim on other parties.

8. TRUST FUND

Included in the Statement of Financial Position is an amount owing to the Trust Fund which primarily represents surplus cash of Crown corporations, agencies, boards and commissions, as well as the Fiscal Stabilization Fund, on deposit with the Minister of Finance for investment but not specifically invested. Such deposits are pooled with other available funds of the Government for investment purposes and are accorded a market rate of interest. The assets and liabilities of the Trust Fund itself as at March 31st are as follows:

	($millions)	
ASSETS	1990	1989
Amount due from Operating Fund	$1,044	$1,161
Cash and Investments	794	672
Total Trust Assets	$1,838	$1,833
LIABILITIES		
Trust Fund Balances	$1,838	$1,833
Total Trust Liabilities	$1,838	$1,833

In addition, the Trust Fund includes cash and securities for which the Government's responsibility is custodial in nature. The amount reported at March 31, 1990 was $700 million (1989-$635 million).

9. GUARANTEED AND INDIRECT LIABILITIES

Debt issued by Crown corporations, agencies, boards and commissions which is guaranteed by the Government at March 31st:

	($ millions)	
	1990	1989
Provincial utilities, cities and towns	$1,733	$1,604
Debt of Crown corporations whose main source of income is the Operating Fund	372	399
Debt serviced in whole or in part from the Operating Fund	10	10
	$2,115	$2,013
Less: Applicable sinking funds	290	277
	$1,825	$1,736

A portion of the foreign currency fluctuation on the guaranteed debt included above has been provided for in the Provision for Foreign Currency Fluctuation on Manitoba Hydro Debt.

Exhibit 9

10. OTHER ACCRUED LIABILITIES

The Government has accrued a liability at March 31st for losses or program expenditures in order to recognize the Province's responsibility to fund these amounts when they become payable:

	($ millions) 1990	1989
Manitoba Public Insurance Corporation		
- Reinsurance assumed losses	$ 32	$ 32
Criminal Injuries Compensation Board		
- Unfunded future costs of compensation awards	20	17
Manfor Ltd. Divestiture	10	-
Manitoba Milk Producers Marketing Board	2	2
Other	2	2
	$ 66	$ 53

11. FINANCIAL COMMITMENTS

The Government has entered into long-term financial arrangements wherein indebtedness has been issued that is not guaranteed by the Government, but the funds required for the payment of principal and interest will be either fully or partially provided from appropriations of the Operating Fund. The Government has also made future commitments against appropriations under long-term contracts that cover the acquisition and/or rental of physical assets. These financial commitments as at March 31st are as follows:

	($ millions) 1990	1989
LONG-TERM FINANCIAL ARRANGEMENTS:		
Hospitals and Personal Care Homes	$ 462	$ 429
Public Schools	285	272
Manitoba Housing and Renewal Corporation	225	229
Repap Pulp and Paper Inc. (Divestiture of Manfor Ltd.)	150	-
Brandon University	3	3
Manitoba Water Services Board	2	2
	$ 1,127	$ 935
FUTURE COMMITMENTS:		
Acquisition of physical assets	$ 157	$ 81
Rental of physical assets	60	94
	$1,344	$1,110

In addition to the approved outstanding debt for Hospitals and Personal Care Homes, lines of credit up to $82.6 million (1989-$64.4 million) have been approved to finance capital projects currently in process. On completion of these projects, the borrowings will be converted to long-term debt.

12. CONTINGENCIES

The Government has provided guarantees for the following and accordingly has a contingent liability in the event of default:

	Maximum Guarantee ($ millions)	Amount Outstanding 1990 ($millions)	1989
Mortgages	$ 1	$ 1	$ 1
Promissory notes	175	-	3
Bank loans and lines of credit	38	21	22
	$214	$22	$26

Exhibit 9

This does not include guarantees that may be provided by Crown corporations, agencies, boards and commissions under their own separate authority.

The Government has provided a guarantee to the purchaser of Flyer Industries Ltd. covering all of the obligations of Manitoba Development Corporation arising out of the sale of Flyer Industries Ltd. including $53 million of performance bonds on contracts for the supply of buses to various transit organizations.

The Government has been named in approximately 275 legal actions, outstanding at March 31, 1990, which may result in future liabilities. As well, there are approximately 100 other claims outstanding in respect of damages to persons and property and like items. No provision has been made at March 31, 1990 in the accounts of the Province as the outcome of these actions and claims is uncertain.

13. PENSION LIABILITY

The Government is required by legislation to pay 50% of the pension disbursements made to retired Provincial employees (with the exception of the share payable by Government agencies for their employees) and to retired teachers. Such payments are charged to departmental appropriations as incurred and no provision is made to fund current or past service obligations of the Government to the Civil Service Superannuation Fund or to the Teachers' Retirement Allowances Fund. The reserves which are presently held in these Funds represent only the employees' obligation towards the total pension liability.

An actuarial valuation and report of the Government's liability to the Civil Service Superannuation Fund was determined as at December 31, 1986. The report also provided a formula to update the liability on an annual basis. In accordance with the formula adopted by the actuary, the Government's actuarial liability to the Civil Service Superannuation Fund has been calculated on a non-indexed basis at approximately $457 million at March 31, 1990 (1989-approximately $406 million). The liability of the Province to the Teachers' Retirement Allowances Fund has not been established by an actuarial valuation. The reserve which is indexed and held in the Teachers' Retirement Allowances Fund, representing the employees' obligation towards the total pension liability, amounted to $675 million as at December 31, 1989 (1988-$597 million). The Province's liability should approximate these amounts.

In addition, the Government is required to pay all of the pension disbursements made to retired Members of the Legislative Assembly (MLA's) in accordance with the Legislative Assembly Act. Members' contributions, as deducted from their renumeration, are treated as revenue of the Government. An actuarial valuation at December 31, 1986 determined the Government's liability to be $19 million. The report did not include a formula to update the liability annually, however, a revised report is expected to be available for disclosure in the 1990-91 Public Accounts.

14. FISCAL STABILIZATION FUND

The Fiscal Stabilization Fund was established effective March 31, 1989 under authority of the Fiscal Stabilization Fund Act. The purpose of the fund is to assist in stabilizing the fiscal position of the Government from year to year and to improve long-term planning. Under authority of the Act, the Minister of Finance, with the approval of the Lieutenant Governor in Council may deposit in the Fund any part of the revenue or other financial assets received in any fiscal year, and may transfer any part of the Fund to revenue of the Consolidated Fund.

If the Fiscal Stabilization Fund was consolidated in the financial statements of the Government, the net result for the Operating Fund would have been a deficit of $117 million (1989-$58 million surplus).

15. LEGISLATIVE AUTHORITY FOR BORROWING AND EXPENDITURE

Order-in-Council 1138/82 authorizes the Minister of Finance to borrow money by the sale of promissory notes or by bank line of credit up to an aggregate amount not exceeding $350 million at any one time.

Limits established by legislation for borrowing funds and for expenditure from appropriations are shown below along

Exhibit 9

with information regarding any non-compliance with these limits that may have occurred during the fiscal year.

A) **BORROWING:**	Appropriation Acts	Loan Acts
	($ millions)	
Incremental Non-Lapsing Authority Provided in 1989 Acts	$ 800	$ 800
Amount Used During the Fiscal Year Ended March 31, 1990	38	225
Available for Future Years	$ 762	$ 575
Unused Borrowing Authority From Prior Years	-	-
Unused Borrowing Authority at March 31, 1990	$ 762	$ 575

B) **EXPENDITURE:**(Appropriation Acts)

1) **CHANGES FROM ORIGINAL BUDGET ESTIMATE**

The budget estimate shown on the Statement of Revenue and Expenditure consists of the original estimates as contained in the budget address delivered by the Minister of Finance on June 5, 1989.

The 1989-90 expenditure estimate of $4,766 million included an estimated saving of $50 million expected from lapsing expenditure authority in various appropriations. Because the specific appropriations were not identifiable, gross appropriation expenditure authority totalling $4,816 was voted and authorized in the Main Estimates. The amount was increased during the fiscal year as follows:

	($ millions)
Main Estimates (including general statutory appropriations)	$4,816
Supplementary Estimates	69
Increased by Special Warrants	39
Adjustment of estimated amount of statutory appropriations to actual expenditure	(62)
Total authorized expenditure	$4,862

2) **NON-COMPLIANCE WITH APPROPRIATION LIMITS**

i) The following voted appropriations of the Government were placed in a net overexpended position as a result of adjustments made to reflect accounting policies on valuation allowance and Crown corporation deficits:

Housing XXX-4	
Transfer Payment to the Manitoba Housing and Renewal Corporation	$654,082
Northern Affairs XIX-1	
Administration and Finance	26,312
Allowance For Losses and Expenditure Incurred by Crown Corporations and Other Provincial Entities XXXV-1	
Allowance for Losses and Expenditures	$1,222,242

ii) Ten appropriations of the Government had late accounts paid in the 1990-91 fiscal year which were in excess of the balance remaining in the appropriations by $1 million at March 31, 1990. These late accounts paid subsequent to 45 days after year end are excluded from March 31, 1990 liabilities by the existing accounting policy. These late accounts result in non-compliance with appropriation limits established for the respective programs.

Exhibit 9

C) **EXPENDITURE:(Loan Acts)**

The Loan Act, 1989, provided non-budgetary expenditure authority for the purposes designated in Schedule A and Schedule B of the Act. Schedule A provided $328 million of new expenditure authority while Schedule B indicated $1,200 million of unused expenditure authority from prior Loan Acts. The Act also provided for the lapsing of $430 million of previously voted expenditure authority which is no longer required.

Details of The Loan Act, 1989 expenditure authority is as follows:

	($ millions)
Incremental Authority (Schedule A)	$ 328
Unused Authority from Prior Loan Acts (Schedule B)	1,200
	$1,528
Expenditure Authority used during the fiscal year ended March 31, 1990	329
Unused Loan Act Expenditure Authority at March 31, 1990	$1,199
As at March 31, 1990, unused Loan Act Expenditure Authority was encumbered by	$ 21

Summary of Unused Loan Act Expenditure Authority at March 31, 1990:

		($ millions)
The Manitoba Hydro Electric Board - Limestone		$ 699
The Manitoba Telephone System		111
The Manitoba Housing and Renewal Corporation		111
The Manitoba Hospital Capital Financing Authority		80
Business Support		47
Vision Capital Fund	$30	
Industrial Opportunities Program	15	
Manufacturing Adaptation Program	2	
Manitoba Development Corporation		37
Federal/Provincial Water and Sewer Agreement		34
The Manitoba Agricultural Credit Corporation		22
The Manitoba Water Services Board		16
The University of Manitoba		10
Tourism Agreement		7
Communities Economic Development Fund		4
Loans	$3	
Guarantees	1	
Manitoba Data Services		9
The Co-operative Loans and Loans Guarantee Board		3
Loans	$2	
Guarantees	1	
Manitoba Hazardous Waste Management Corporation		3
Energy Conservation Loan Fund		5
Venture Manitoba Tours Ltd.		1
		$1,199

In addition to the Unused Expenditure Authority shown above, pursuant to prior Loan Acts, Order-in-Council 515/89 committed the Government to $150 million of loan guarantees in future years under the terms and conditions relating to the sale of Manfor Ltd. to Repap Pulp and Paper Inc.

Exhibit 9

16. COMPARISON TO BUDGET ESTIMATE

For purposes of providing a meaningful comparison of changes in the financial position with the budget estimate, in addition to the budget data, other internally developed management information has also been included in the budget estimate information.

17. EXPENDITURES RELATED TO CAPITAL

The Government has substantial holdings of physical assets such as buildings, highways and education and health facilities, which will be used to provide services in future periods and may tend to appreciate in value over time. However, these do not represent claims on others and are therefore not reported as assets, but rather as expenditures. Such expenditures are classified as "Expenditures Related to Capital" in the Main Estimates of Expenditure. This classification is defined as follows:

A. expenditures for property of all kinds, both real property and chattels, purchased or self-constructed for use by Government that are deemed to have an economic life in excess of one year;

B. expenditures for projects or activities which entail major renewals, modification or modernization by own labour forces or by contractors on behalf of the Government and which significantly prolong the expected economic life of the asset;

C. the principal portion of a debt repayment when the debt was incurred to acquire a physical asset and the acquisition cost of the physical asset was not previously reflected in the Consolidated Fund as an expenditure;

D. grants or assistance payments to municipalities, school divisions, external agencies, commercial organizations and private individuals which are known to be for the purchase, construction or improvement of physical assets.

18. MANFOR LTD. DIVESTITURE

The Government's investment in Manfor Ltd. was sold to Repap Pulp and Paper Inc. on May 4, 1989, for a consideration of $131.6 million, consisting of $10 million in cash, $31.6 million in Class MA shares and $90 million in Class MB shares in Repap Pulp and Paper Inc. The $10 million cash has been set aside to cover the estimated costs associated with the divestiture, which consist primarily of an unfunded liability by Manfor Ltd. to the Workers Compensation Board and the costs of an environmental clean-up program at the Manfor site.

A development incentive included in the sale agreement gives Repap Pulp and Paper Inc. the right to re-acquire one-half of the Class MB shares, which have a stated value of $45 million, for $1 million. This $44 million development incentive is subject to meeting certain deadlines established in the agreement and, if exercised, will reduce the redemption value of the shares received by the Province accordingly. In view of this, the Repap shares received on divestiture have been recorded in the Province's accounts at $77.6 million.

The recorded value of the Province's investment in Manfor Ltd. at the date of divestiture was $127.1 million, which was fully offset by an equivalent valuation allowance established in the 1987-88 fiscal year. After divestiture took place, the value of the Manfor Ltd. investment was written-down, utilizing the valuation allowance, to coincide with the estimated redemption proceeds from the Repap Pulp and Paper Inc. shares received in exchange for the Manfor Ltd. shares. This left a balance of $77.6 million in the valuation allowance, which amount is equivalent to the expected redemption value of the Repap Pulp and Paper Inc. shares. Although the accounting policies of the Province allow for the recovery of this balance as a reduction of 1989-90 expenditures, it has been determined that recovery will be deferred until share redemption occurs. Redemption of the shares is mainly dependent on the future profitability of Manfor Ltd. and the fulfilment of other conditions, well into the future.

Subsequent to the date of sale, the Class MA shares were exchanged for 316,397 Series D Preferred Shares of Repap Enterprises Inc. and the Class MB shares for 900,000 Series E Preferred Shares of Repap Enterprises Inc. The shares received in exchange have the same rights, privileges, restrictions and conditions as attached to the MA and MB shares.

The Preferred Shares of Repap Enterprises Inc., representing the net proceeds from the sale of Manfor Ltd., were

Exhibit 9

transferred to the Fiscal Stabilization Fund during the fiscal year ended March 31, 1990. The account representing the unrealized recovery from the Province's investment in Manfor Ltd., in the amount of $77.6 million, was also included in the transfer to the Fiscal Stabilization Fund. Recognition of the recovery on this investment will occur as cash is received from the redemption of the Preferred Shares. The revenue resulting from this recovery will be retained in the Fiscal Stabilization Fund and will be available for the purposes of the fund.

19. SUBSEQUENT EVENTS

A. The Government's interest in Manitoba Data Services was sold to STM Systems Corp. in August of 1990.

B. On May 11, 1990 the Province and Manitoba Hydro entered into an agreement which provides that the settlement amount in respect of each United States dollar denominated debt issue governed by The Energy Rate Stabilization Act be calculated using a currency exchange rate of $1.21. This fixes the Province's liability in relation to foreign exchange fluctuations on these debt issues at $183 million.

20. ENTRIES MADE SUBSEQUENT TO JUNE 30, 1990

Section 8(2) of the Financial Administration Act requires disclosure of entries made after June 30 respecting transactions of the preceding year. Accordingly, the following are reported:

A. Write-off of Loans, Advances and Long-Term Investments

Authorization for the write-off of $17 million, of the $32 million of loans, advances and long-term investments as detailed in note 2 of these financial statements, was provided by Order-in-Council 975/90 approved on September 19, 1990 and was effective retroactively to June 30, 1989.

B. Valuation Allowance

Valuation allowances are calculated as near as possible to Statement preparation time in order to ensure the most accurate provisions.

C. Manfor Ltd. Divestiture

Entries to reflect the divestiture of the Province of Manitoba investment in Manfor Ltd as detailed in note 18 were made subsequent to June 30, 1990.

D. Accrued Liabilities

Entries to reflect the following accrued liabilities were made subsequent to June 30, 1990.

	($ millions)
Family Services Social Programs	1
Criminal Injuries Compensation Board	3
Other	1

21. COMPARATIVE FIGURES

Certain of the 1989 financial statement figures have been restated to be consistent with the 1990 presentation.

Exhibit 9

GOVERNMENT OF THE PROVINCE OF MANITOBA

TRUST FUND ASSETS AND LIABILITIES

As at March 31, 1990
(with comparative figures for March 31, 1989)

	1990	1989
ASSETS		
Amount Due from Operating Fund	$ 1,044,062,833	$ 1,161,504,695
Cash and Investments	793,835,600	671,887,740
	$ 1,837,898,433	$ 1,833,392,435
LIABILITIES		
Trust Fund Balances	$ 1,837,898,433	$ 1,833,392,435
CUSTODIAL TRUST FUNDS		
Cash, Bonds and Other Securities held by the Department of Finance and Other Government Departments - as listed on page 2-12	$ 700,025,299	$ 634,834,375

Exhibit 9

GOVERNMENT OF THE PROVINCE OF MANITOBA

CASH AND INVESTMENTS

As at March 31, 1990
(with comparative figures for March 31, 1989)

	1990	1989
SINKING FUNDS:		
Sinking Fund Investments held for Bonds issued by Crown Corporations, Agencies, Boards and Commissions:		
Manitoba Hydro-Electric Board	$ 233,395,117	$ 223,722,812
Manitoba Telephone System	46,961,240	43,371,722
Manitoba Housing and Renewal Corporation	11,120,772	11,326,594
University of Manitoba	9,668,842	6,758,442
	$ 301,145,971	$ 285,179,570
FUNDS ON DEPOSIT FOR INVESTMENT:		
Manitoba Hydro-Electric Board Contingency Reserve:		
Manitoba Hydro-Electric Board Bonds	$ -	$ 1,917,098
Manitoba Public Insurance Corporation:		
Province of Manitoba Debentures	$ 88,335,670	$ 88,425,984
Manitoba Hydro-Electric Board Bonds	20,481,093	20,481,093
Manitoba Telephone System Bonds	20,837,103	20,837,103
Hospital Debentures	39,387,222	43,173,328
Cities, Villages, Towns and Rural Municipalities	56,679,977	32,404,820
School Division Debentures	112,606,569	80,750,453
Ontario Hydro Bonds	31,710,800	27,253,300
Quebec Hydro Bonds	27,231,500	17,513,750
British Columbia Hydro Bonds	7,050,680	1,941,800
Newfoundland Municipal Financing Corporation Bonds	1,250,000	-
Province of New Brunswick Debentures	4,591,000	-
Province of Saskatchewan Debentures	6,775,500	-
Province of Quebec Debentures	6,942,850	1,961,600
Government of Canada Bonds	29,912,500	14,825,000
	$ 453,792,464	$ 349,568,231
Public Service Group Insurance Fund:		
Government of Canada Bonds	$ 18,980,137	$ 18,294,334
Government of Canada Treasury Bills	10,840,370	7,239,016
Ontario Hydro Bonds	2,982,585	3,458,835
British Columbia Hydro Bonds	545,586	545,586
	$ 33,348,678	$ 29,537,771
Northern Flood Agreement:		
Quebec Hydro Bonds	$ 550,000	$ 550,000
Winnipeg School Division Debentures	693,072	708,416
	$ 1,243,072	$ 1,258,416
	$ 488,384,214	$ 382,281,516
Miscellaneous Trust:		
Suitors' Money Act		
Cash in Canadian Imperial Bank of Commerce	$ 4,305,415	$ 4,426,654
	$ 793,835,600	$ 671,887,740

Exhibit 9

GOVERNMENT OF THE PROVINCE OF MANITOBA

TRUST FUND BALANCES

As at March 31, 1990
(with comparative figures for March 31, 1989 and displaying
Receipts, Disbursements and Transfers for the Year Ended March 31, 1990)

	1989 Balance	Receipts/ Transfers	Disbursements/ Transfers	1990 Balance
SINKING FUNDS:				
Sinking Fund Contributions by Utilities and Others for own Direct Debt:				
Manitoba Hydro-Electric Board...............	$ 223,722,812	$ 244,982,808	$ 235,310,503	$ 233,395,117
Manitoba Telephone System....................	43,371,722	34,662,253	31,072,735	46,961,240
Manitoba Water Services Board...............	836,501	247,817	1,084,318	-
Manitoba Housing and Renewal Corporation.......................................	11,326,594	14,706,813	14,912,635	11,120,772
University of Manitoba..........................	9,029,467	1,044,304	149,801	9,923,970
	$ 288,287,096	$ 295,643,995	$ 282,529,992	$ 301,401,099
FUNDS ON DEPOSIT FOR INVESTMENT:				
Churchill Forest Industries in Receivership..	$ 276,636	$ -	$ -	$ 276,636
Civil Service Superannuation Fund............	3,470,741	108,666,393	110,776,000	1,361,134
Centre Culturel Franco-Manitobain............	-	651,042	51,042	600,000
Co-operative Promotion Board.................	52,000	-	-	52,000
Department of Education and Training - P. A. C. E.	35,661	2,907	27,500	11,068
Department of Energy and Mines - Niagara Capital..................................	-	14,323	-	14,323
Department of Government Services - Fort Osborne Complex...........................	-	556,111	-	556,111
Department of Health - Schizophrenic Research..........................	27,825	3,456	-	31,281
Department of Justice.............................	10,264	50,000	10,264	50,000
Department of Labour - Employment Standards..	14,005	100,051	52,598	61,458
Employee Charitable Donations.................	862,592	769,421	697,216	934,797
Fires Prevention Fund.............................	-	6,129,494	550,000	5,579,494
Fiscal Stabilization Fund.........................	200,000,000	25,000,000	-	225,000,000
Home Care Employees' Fund....................	-	575,000	-	575,000
Hudson Bay Co. Archives........................	72,999	11,378	-	84,377
Leaf Rapids Town Properties Ltd..............	689,731	370,071	359,350	700,452
Lynngold Resources Incorporated..............	-	2,000,000	218,669	1,781,331
Manitoba Arts Council............................	1,825,000	2,160,000	1,795,000	2,190,000
Manitoba Beef Commission......................	500,000	1,000,000	1,500,000	-
Carried Forward........................	$ 207,837,454	$ 148,059,647	$ 116,037,639	$ 239,859,462

Exhibit 9

	1989 Balance	Receipts/ Transfers	Disbursements/ Transfers	1990 Balance
Brought Forward......................	$ 207,837,454	$ 148,059,647	$ 116,037,639	$ 239,859,462
Manitoba Centennial Centre Corporation.....	431,266	1,464,725	1,578,316	317,675
Manitoba Centennial Foundation of the Future.......................................	17,923	1,790	-	19,713
Manitoba Crop Insurance Corporation.........	6,700,000	-	3,700,000	3,000,000
Manitoba Data Services..........................	7,800,000	10,151,238	5,536,718	12,414,520
Manitoba Development Corporation...........	-	500,000	-	500,000
Manitoba Development Corporation –				
Tourism Agreement..............................	896,073	5,204	83,685	817,592
Tourism/85 Agreement..........................	283,750	45,330	-	329,080
Pension Fund..	-	179,191	-	179,191
Manitoba Health Services Debenture..........	806,779	2,586,364	2,636,122	757,021
Manitoba Health Services – Other..............	2,550,594	1,468,891	1,454,949	2,564,536
Manitoba Hog Producers Marketing Board...	7,200,000	10,800,000	15,500,000	2,500,000
Manitoba Housing and Renewal Corporation.	13,296,086	35,117,768	42,141,238	6,272,616
Manitoba Housing and Renewal Corporation – Insurance Fees..................	233,316	29,379	54,179	208,516
Manitoba Hydro-Electric Board................	311,000,000	610,500,000	717,500,000	204,000,000
Manitoba Hydro-Electric Board Contingency Reserve............................	1,917,098	125,115	2,042,213	-
Manitoba Intercultural Council..................	1,365,015	177,005	1,404,756	137,264
Manitoba Law Foundation.......................	1,791,359	1,112,174	2,573,533	330,000
Manitoba Lottery and Other Proceeds –				
Manitoba Lotteries Foundation................	16,200,000	21,158,552	32,703,552	4,655,000
Amateur Sport.....................................	2,603,945	376,778	1,400,000	1,580,723
Culture, Heritage and Recreation.............	14,760,000	6,050,000	4,300,000	16,510,000
Community Places................................	13,750,000	8,200,000	6,250,000	15,700,000
Fitness Development............................	785,149	109,988	2,014	893,123
Multicultural Grants Advisory Council.......	-	300,000	-	300,000
Planning and Research..........................	318,147	47,274	2,014	363,407
Manitoba Milk Producers'Marketing Board..	1,523,500	115,540,000	116,223,500	840,000
Manitoba Mineral Resources Limited.........	8,350,000	15,754,400	10,902,000	13,202,400
Manitoba Mineral Resources Limited – Ruttan Mines.......................................	2,149,134	3,083,017	3,132,151	2,100,000
Manitoba Natural Resources – Land Development...............................	-	51,492	-	51,492
Manitoba Public Insurance Corporation.......	563,992,007	251,530,976	182,594,590	632,928,393
Manitoba Developmental Centre................	115,707	-	707	115,000
Manitoba Research Council......................	1,117,856	529,308	480,210	1,166,954
Manitoba Telephone System.....................	15,800,000	229,280,800	234,900,000	10,180,800
Municipal Employees' Benefit Fund...........	3,475,770	27,451,513	28,103,707	2,823,576
Carried Forward.......................	$ 1,209,067,928	$ 1,501,787,919	$ 1,533,237,793	$ 1,177,618,054

Exhibit 9

	1989 Balance	Receipts/ Transfers	Disbursements/ Transfers	1990 Balance
Brought Forward......................	$ 1,209,067,928	$ 1,501,787,919	$ 1,533,237,793	$ 1,177,618,054
Northern Affairs - Remote Communities.....	-	63,634	-	63,634
Northern Flood Agreement......................	1,487,459	144,027	197,862	1,433,624
Northern Flood Committee......................	5,000,000	300,903	5,300,903	-
Public Service Group Insurance Fund	32,457,965	5,877,603	149,321	38,186,247
Public Trustee..	2,800,000	44,250,000	28,650,000	18,400,000
Rentalsman..	115,937	3,933	1,137	118,733
Red River Community College Student Building..................................	34,366	4,269	-	38,635
Strategic Health Research........................	-	1,319,865	-	1,319,865
Teachers' Retirement Allowances Fund.......	75,615,000	142,590,000	159,665,000	58,540,000
Victims Assistance Fund..........................	1,149,908	499,821	-	1,649,729
Welfare Administered Trust.....................	130,000	-	15,000	115,000
Workers' Cancer Study...........................	33,849	-	33,849	-
Workers Compensation Board..................	52,102,139	200,790,608	167,894,639	84,998,108
	$ 1,379,994,551	$ 1,897,632,582	$ 1,895,145,504	$ 1,382,481,629
BANKING FACILITY ACCOUNTS:				
A Clean Rural Environment......................	$ -	$ 758,476	$ 30,617	$ 727,859
Manitoba Agricultural Credit Corporation....	4,792,412	102,814,064	98,036,554	9,569,922
Manitoba Beef Commission......................	1,759,115	1,642,915	3,340,987	61,043
Manitoba Crop Insurance Corporation -				
General...	2,714,250	162,503,571	161,399,323	3,818,498
Hail Insurance.....................................	467,828	4,284,892	3,270,736	1,481,984
Reinsurance Account............................	14,152,825	23,078,878	30,039,907	7,191,796
Manitoba Hazardous Waste Management Corporation.......................	115,545	200,168	294,779	20,934
Manitoba Law Foundation.......................	38	-	-	38
Manitoba Potash Corporation....................	73,413	146,029	178,794	40,648
Manitoba Properties Inc	764,895	-	764,895	-
Manitoba Research Council.....................	15,941	5,775,302	5,738,873	52,370
Manitoba Text Book Bureau.....................	2,900,457	9,312,838	9,205,440	3,007,855
Manitoba Trading Corporation..................	505,615	102,053	109,748	497,920
Manitoba Water Services Board................	349,566	50,138,721	49,515,615	972,672
Minister of Rural Development.................	845,282	6,464,494	6,017,308	1,292,468
	$ 29,457,182	$ 367,222,401	$ 367,943,576	$ 28,736,007

Exhibit 9

	1989 Balance	Receipts/ Transfers	Disbursements/ Transfers	1990 Balance
OPERATING TRUSTS:				
Manitoba Lotteries Foundation –				
Culture, Heritage and Recreation..............	$ 1,342,670	$ 21,961,110	$ 21,416,544	$ 1,887,236
Community Places..................................	3,582,186	18,170,581	18,199,112	3,553,655
Amateur Sport..	1,273,659	7,673,299	6,562,913	2,384,045
Fitness Development..............................	190,861	396,183	237,009	350,035
Multicultural Grants Advisory Council.......	–	875,449	845,348	30,101
Planning and Research............................	83,658	85,620	30,146	139,132
Special Health Projects...........................	–	844,000	844,000	–
The Mining Community Reserve................	9,633,690	4,702,472	800,737	13,535,425
The Veterinary Science Scholarship Fund....	7,470	15,562	15,000	8,032
	$ 16,114,194	$ 54,724,276	$ 48,950,809	$ 21,887,661
MISCELLANEOUS TRUSTS:				
School Divisions Reserve Fund..................	$ 941,419	$ 113,388	$ 97,645	$ 957,162
Aluminum Can Recycling Program............	–	126	–	126
Amounts Collected on Behalf of Municipalities and Local Governments re:				
Permits and Leases............................	8,387	2,252,016	2,205,349	55,054
Builders' Lien Act..................................	2,230,927	8,491,783	8,884,135	1,838,575
Communities Economic Development Fund..	1,582,000	1,242,000	995,180	1,828,820
Consumer Protection Act.........................	33,380	81,340	54,563	60,157
Contractual Holdbacks............................	225,068	704,607	696,889	232,786
Employee Charitable Donations.................	73	674,441	673,170	1,344
Employee Parking Fees...........................	–	1,197,107	945	1,196,162
Environmental Health..............................	3,720	–	–	3,720
Fires Prevention Fund............................	5,860,449	4,190,750	7,959,550	2,091,649
Guarantee Deposits................................	2,685,773	828,702	1,151,040	2,363,435
Highway Traffic Act...............................	10,332	–	5,832	4,500
Health Services Insurance Act..................	2,098,745	–	2,098,745	–
Hudson Bay Company Archives................	1,951	3	1,951	3
International Student Program..................	41,138	99,080	126,868	13,350
Land Titles Assurance Fund.....................	153,851	39,484	96,140	97,195
Law Reform Commission.........................	–	30,000	19,550	10,450
Manitoba Health Services Commission........	58,465,374	89,537,537	86,886,785	61,116,126
Manitoba Health Services Commission –				
Ambulance Service..............................	–	10,249	2,026	8,223
Manitoba Hydro Provincial Sales				
Tax Rebate – Indian Bands......................	29,845	–	–	29,845
Manitoba Jobs Fund...............................	3,455,414	–	1,330,814	2,124,600
Manitoba Public Insurance Corporation.......	464,695	337,921,201	337,883,953	501,943
Mortgage Insurance Fund........................	451,109	185,221	55,762	580,568
Oak Hammock Marsh Conservation...........	67	50	–	117
Carried Forward........................	$ 78,743,717	$ 447,599,085	$ 451,226,892	$ 75,115,910

Exhibit 9

	1989 Balance	Receipts/ Transfers	Disbursements/ Transfers	1990 Balance
Brought Forward	$ 78,743,717	$ 447,599,085	$ 451,226,892	$ 75,115,910
Private Vocational Schools Act Surety Claims	11,200	-	-	11,200
Public Schools Finance Board	32,213,702	43,319,600	55,786,452	19,746,850
Red River Community College - Student Union Building	1,055	-	-	1,055
Sherridan Mines - Rehabilitation	975	20,000	20,700	275
Single Application for Vehicle Registration	70,351	6,338,109	6,407,610	850
Suitors' Money Act	4,426,655	4,702,298	4,823,538	4,305,415
Textbook Fees	1,099	-	-	1,099
Tripartite Stabilization Plan	13,584	4,296,095	4,060,704	248,975
Winnipeg Core Area Land	988,379	-	-	988,379
Winnipeg Core Area Land Acquisition	2,610,649	2,509,096	3,174,000	1,945,745
Veterinary Services - Humane Inspection	-	60,302	1,440	58,862
Victims Assistance Fund	168,618	705,083	678,492	195,209
Victims Fine	-	72,498	-	72,498
Other	289,428	1,341,553	931,266	699,715
	$ 119,539,412	$ 510,963,719	$ 527,111,094	$ 103,392,037
	$ 1,833,392,435	$ 3,126,186,973	$ 3,121,680,975	$ 1,837,898,433

Exhibit 9

GOVERNMENT OF THE PROVINCE OF MANITOBA

CUSTODIAL TRUST FUNDS HELD BY THE DEPARTMENT OF FINANCE AND OTHER GOVERNMENT DEPARTMENTS

As at March 31, 1990
(with comparative figures for March 31, 1989)

	Cash On Hand	Cash In Bank	Bonds and Other Securities	1990 Balance	1989 Balance
FINANCE:					
Civil Service Superannuation Board	$ -	$ -	$ 452,261,317	$ 452,261,317	$ 397,243,891
Cooperative, Consumer and Corporate Affairs	-	-	3,382,500	3,382,500	1,935,300
Cooperative Promotion Board	-	-	131,000	131,000	131,000
Energy and Mines	-	-	1,805,630	1,805,630	1,677,850
Finance	-	18,491	165,422	183,913	755,397
Health	-	-	23,411	23,411	23,411
Highways and Transportation	-	-	30,000	30,000	30,000
Justice	-	-	16,030	16,030	16,030
Manitoba Hospital Capital Financing Authority	-	-	3,061,500	3,061,500	3,457,500
Natural Resources	-	-	602,556	602,556	333,854
The Public Trustee	-	-	77,928,712	77,928,712	82,140,710
Workers Compensation Board	-	-	156,310,522	156,310,522	143,782,299
OTHER GOVERNMENT DEPARTMENTS:					
Agriculture	98	5,364	-	5,462	4,865
Cooperative, Consumer and Corporate Affairs	-	66,090	-	66,090	1,979
Education and Training	3,157	584,472	87,000	674,629	278,889
Family Services	2,999	132,885	-	135,884	70,996
Health	2,800	51,705	167,148	221,653	206,098
Housing	-	31,236	-	31,236	40,379
Industry, Trade and Tourism	-	-	58,110	58,110	73,843
Justice	-	1,243,700	1,375,397	2,619,097	1,688,115
Labour	-	167,182	-	167,182	160,884
Northern Affairs	50	308,815	-	308,865	781,085
	$ 9,104	$ 2,609,940	$ 697,406,255	$ 700,025,299	$ 634,834,375

NOTE: The Department of Finance also provides a safekeeping service for various departments, agencies, boards and commissions, including shares as well as other items which are not valued for inclusion in the above Custodial Trust Funds.

Exhibit 9

GOVERNMENT OF THE PROVINCE OF MANITOBA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 1990

1. TRUST FUND ACCOUNTING POLICIES

A. The Trust Fund financial statements are prepared using the cash basis of accounting.

B. The gross accounting concept is not followed.

C. Bonds and other securities held as Custodial Trusts are shown at face or par value. All other Trust Fund investments, including Sinking Fund investments held for Crown corporations, agencies, boards and commissions, are shown at cost. Where an investment is in a foreign currency, it is restated at the rate of exchange in effect on March 31.

2. TRUST DIVISIONS

The Trust Fund is divided into two primary divisions:

A. ADMINISTERED TRUSTS
Those trusts where the Government has the responsibility for the administration and for investment of the trusts.

B. CUSTODIAL TRUSTS
Those trusts where the Government's responsibility is custodial in nature and there is little or no administrative responsibility. Generally, the responsibility for investment of Custodial Trusts is that of the depositor.

3. ADMINISTERED TRUSTS

Administered Trusts are divided into five categories:

A. SINKING FUNDS
Sinking fund contributions are deposited with the Minister of Finance by Crown corporations, agencies, boards and commissions in respect of their direct debt.

B. FUNDS ON DEPOSIT FOR INVESTMENT
Funds surplus to the immediate cash requirement of Crown corporations, agencies, boards and commissions are deposited for investment with the Minister of Finance.

Although certain of these deposits are covered by specific investments in the Trust Fund, the majority of these funds are invested with the Minister of Finance and interest is paid at market rate in accordance with the terms of the investment.

C. BANKING FACILITY ACCOUNTS
These accounts are operated for those Crown corporations, agencies, boards and commissions who bank with the Minister of Finance.

D. OPERATING TRUSTS
Certain trusts are established where legislation or agreements require receipts and related disbursements to be kept separate from Government revenue and expenditure. These "designated trusts" may, in some cases, be used for programs similar to those operated from appropriated funds but are kept separate because a trust requirement has been established. A separate Statement of Receipts, Disbursements and Transfers is prepared for each of these trusts and is published in the OTHER FUNDS section of the Public Accounts.

E. MISCELLANEOUS TRUSTS
These trust accounts result from the sundry deposit of cash and/or securities with the Government.

Exhibit 10

**Office of
the Provincial Auditor**

905 - 386 Broadway
Winnipeg, Manitoba, CANADA
R3C 3R6

REPORT OF THE OFFICE OF THE PROVINCIAL AUDITOR

Under the authority of section 8 of The Fiscal Stabilization Fund Act, we have examined the statement of financial position of the Fiscal Stabilization Fund of the Government of the Province of Manitoba as at March 31, 1990 and the statement of revenue and expenditure and fund balance for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

The Preferred Shares of Repap Enterprises Inc., included in the statement of financial position at $77,638,700, have been recorded at their future potential redemption value, as set out in note 3. As set out in note 4, the unrealized recovery from the future redemption of the Preferred Shares of Repap Enterprises Inc. of $77,638,700 recognizes that realization of these shares is dependent on the future profitability of Manfor Ltd., or its successor, and other conditions being fulfilled, well into the future. To the extent that these preferred shares are subject to realization through future redemption, these shares are not an asset of the kind that can be used at March 31, 1990 to fund program expenditure to assist in stabilizing the financial position of the Government and the preferred shares of $77,638,700 cannot be considered an asset available for that purpose.

In our opinion, except for the matter described in the preceding paragraph, these financial statements present fairly the financial position of the Fiscal Stabilization Fund of the Government of the Province of Manitoba as at March 31, 1990 and reflect the transactions processed through the Fiscal Stabilization Fund for the year then ended in accordance with the legislation establishing the Fund and the accounting policies stated in note 2 to the financial statements applied on a basis consistent with that of the preceding year.

Winnipeg, Manitoba
October 10, 1990

F. H. Jackson, CA
Provincial Auditor

Exhibit 11

FISCAL STABILIZATION FUND
STATEMENT OF FINANCIAL POSITION

As At March 31, 1990
(with comparative figures for March 31, 1989)

	1990	1989
ASSETS		
Funds on Deposit with the Minister of Finance	$225,000,000	$200,000,000
Preferred Shares of Repap Enterprises Inc. - at recorded amount (Notes 3 and 4)	77,638,700	-
	$302,638,700	$200,000,000
FUND BALANCE AND UNREALIZED RECOVERY		
Fund Balance	$225,000,000	$200,000,000
Unrealized Recovery From Future Redemption of Preferred Shares of Repap Enterprises Inc. (Notes 3 and 4)	77,638,700	-
	$302,638,700	$200,000,000

FISCAL STABILIZATION FUND
STATEMENT OF REVENUE AND EXPENDITURE AND FUND BALANCE

For the Year Ended March 31, 1990
(with comparative figures for the period ended March 31, 1989)

	1990	1989
REVENUE:		
Interest Earnings	$ 25,000,000	$ -
Transfer from Operating Fund Revenue	-	200,000,000
	$ 25,000,000	$200,000,000
EXPENDITURE:	-	-
	$ 25,000,000	$200,000,000
Fund Balance, beginning of year	200,000,000	-
Fund Balance, end of year	$225,000,000	$200,000,000

Exhibit 11

FISCAL STABILIZATION FUND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 1990

1. Incorporation and Function

The Fiscal Stabilization Fund was established at March 31, 1989 under the authority of The Fiscal Stabilization Fund Act, which received Royal Assent on December 13, 1989. The purpose of the Fund is to assist in stabilizing the fiscal position of the Government from year to year and to improve long-term fiscal planning. Under the provisions of the Act, the Government may deposit in the Fund any part of the revenue or other financial assets received in any fiscal year and shall credit to the Fund any earnings from investment of the Fund. All or part of the Fund balance can be transferred to the Consolidated Fund in accordance with the provisions of the Act for the purposes indicated.

2. Significant Accounting Policies

a) The Fund's financial statements have been prepared using the accrual basis of accounting.

b) The valuation of the investment in the preferred shares of Repap Enterprises Inc. is based on the potential redemption value per the Share Purchase Agreement, as set out in Note 3.

c) The unrealized recovery from future redemption of preferred shares of Repap Enterprises Inc. is established as an equal and offsetting amount to the valuation of the preferred shares in Repap Enterprises Inc.

3. Share Purchase Agreement

On May 4, 1989, the Government of the Province of Manitoba entered into a Share Purchase Agreement with Repap Pulp & Paper Inc. Under terms of the Agreement, the Government disposed of its interest in Manfor Ltd. to Repap Pulp & Paper Inc. for preferred shares in Repap Enterprises Inc. These shares were transferred to and recorded in the Fiscal Stabilization Fund as at March 31, 1990 at $77,638,700. The shares consist of 316,397 Series D Preferred Shares and 900,000 Series E Preferred Shares, each with a redemption price of $100. Repap Pulp & Paper Inc. has the right to re-acquire up to 450,000 of the Series E shares for $2.22 per share as a development incentive. The valuation of $77,638,700 reflects 316,397 Series D shares at $100, 450,000 Series E shares at $100 and 450,000 Series E shares at $2.22. Such realization through the redemption of these shares is dependent upon the occurrence of future events. Accordingly, the worth of these shares is not presently determinable. Consequently, an equal and offsetting entry in the amount of $77,638,700 is recorded as an unrealized recovery from future redemption of preferred shares of Repap Enterprises Inc.

The investment in Manfor Ltd. previously had been carried in the Government's Consolidated Fund at a nominal book value of $1 as the result of a valuation allowance applied against the investment. Recognition of revenue from the Repap Enterprises Inc. shares will be deferred until cash is received from the redemption of these shares. The unrealized recovery from redemption of Repap Enterprises Inc. shares account will be decreased and Fund balance account increased as cash is received from future redemptions. The redemption realization of these shares is dependent on future profitable operations of Manfor Ltd. or its successor after May 1, 1989 and other conditions being fulfilled, the more significant of which are set out in Note 4.

Exhibit 11

4. **Redemption of Shares**

Under terms of the May 4, 1989 Share Purchase Agreement between the Government of the Province of Manitoba and Repap Pulp & Paper Inc., Repap Pulp & Paper Inc. may redeem the Series D and E Preferred Shares of Repap Enterprises Inc. The redemption is dependent on earnings of Manfor Ltd. or its successor after May 1, 1989. Redemption of the Series D shares may occur over a period of five consecutive years commencing the later of December 31, 1994 or December 31 of the year in which the long-term debt for construction of Phases I and II of the plant redevelopment is reduced to 50% or less of the original amount. The timing of redemption is also related to issuance of environmental permits for Phase I by June 30, 1989. Delays beyond that date correspondingly extend commencement and completion dates of both Phases I and II and, accordingly, the redemption dates. The environmental permits related to Phase I were issued January 26, 1990. Redemption of the Series E shares may commence once all the Series D shares have been redeemed and may occur over a period of ten consecutive years.